

Admission	Sh. 10	Indonesian	Rp 2000	Portugal	Esc 100
Barbados	Dm 0.50	Italy	L. 1000	S. Arabia	Ri 6.00
Belize	Bz 2.00	Japan	¥ 100	Singapore	S\$ 4.10
Bolivia	Bs 100	Kenya	Sh 500	South Africa	Rand 1.00
Brazil	R\$ 100	Malaysia	RM 1.00	Spain	Pta 166.64
Bulgaria	BG 100	Netherlands	ƒ 1.00	Sweden	Skr 4.60
Canada	Cdn 0.75	Norway	Nkr 4.00	Switzerland	Sfr 2.20
Chad	CFA 200	Peru	S/ 3.00	Taiwan	Nt 200
China	Y 1.00	Poland	Zl 100	Thailand	Bt 5.00
Czechoslovakia	Cs 100	Romania	Lei 100	Turkey	Lira 1.70
Denmark	Dkr 16.64	Soviet Union	R 1.00	U.S.A.	Dl 1.00
Egypt	E£ 1.00	U.S.A.	Dl 1.00		
France	F 100				
Germany	M 1.00				
Ghana	Cedi 1.00				
Greece	Dr 100				
Hong Kong	Hk\$ 1.00				
India	Rs 1.00				
Indonesia	Rp 2000				
Italy	L. 1000				
Japan	¥ 100				
Kenya	Sh 500				
Malaysia	RM 1.00				
Netherlands	ƒ 1.00				
Norway	Nkr 4.00				
Peru	S/ 3.00				
Poland	Zl 100				
Romania	Lei 100				
Soviet Union	R 1.00				
U.S.A.	Dl 1.00				
Switzerland	Sfr 2.20				
Taiwan	Nt 200				
Thailand	Bt 5.00				
Turkey	Lira 1.70				
U.S.A.	Dl 1.00				

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,764

Monday October 28 1985

D 8523 B

Why we need  
an entente  
cordiale, Page 15

## World news

## Business summary

### Chirac pledges to shun far right

Jacques Chirac, leader of the French neo-Gaullist RPR opposition party, pledged that any right-wing French government taking power after next March's general elections would not rule with extreme right-wing ministers.

He made the promise in a televised debate with Laurent Fabius, the Prime Minister, which was widely seen as the opening shot of the election campaign.

The debate, the first major television confrontation between left and right-wing ministers since 1981, saw the two men clash on several issues.

### U.S. split denied

Robert McFarlane, President Ronald Reagan's National Security Adviser, defended the U.S. Administration against charges that it was split over its approach to the summit meeting in Geneva next month.

### Lisbon invitation

Portuguese President Antonio Ramalho Eanes will tomorrow ask Social Democrat leader Anibal Cavaco Silva to form a minority government.

### Coalition confusion

The prospects for a "red-green" coalition in the West German state of Hesse remained uncertain as the Greens environmentalist party opened a debate on approving plans for a joint government with the Social Democrats.

### Worshippers killed

Fourteen people died and 78 were wounded when rebel missiles hit the main mosque in the western Afghan town of Herat, the official Kabul Radio reported.

### Israel accused

The International Committee of the Red Cross accused Israel and its militia allies of preventing Red Cross visits to scores of prisoners in south Lebanon. Meanwhile, Israeli Prime Minister, Shimon Peres, said peace talks between Israel and Jordan were a growing possibility.

### Detainees freed

Punjab authorities ordered the release of 300 people detained in connection with Sikh extremism.

### Arrests quashed

Argentine judges quashed arrests ordered by the Government under the state of siege, deepening the conflict of powers between the executive and the judiciary.

### African vote

Voters in the Ivory Coast began the formalities of giving 80-year-old President Felix Houphouët-Boigny another five years in power.

### Pretoria police boost

South Africa is to strengthen its police force by 11,000 and build extra police stations in black townships. The Institute of Race Relations, an independent body funded mainly by liberal businessmen, said black violence could subside if police were disciplined and basic grievances tackled.

### Paintings stolen

Three gunmen stole nine Impressionist paintings, including works by Monet and Renoir, from the Marmottan Museum in Paris.

### New Soviet jet

Aeroflot, the Soviet state airline, is to produce a long-distance passenger aircraft within the next five years, its first since 1980, the Communist Party newspaper Pravda said.

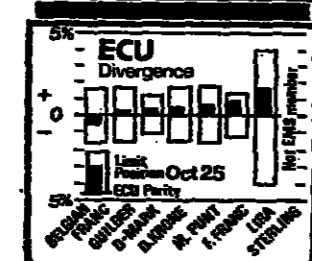
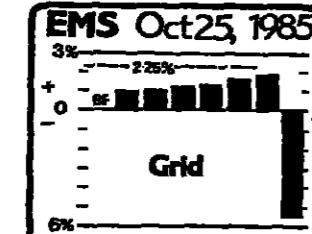
### Longchamp winner

Mersey, ridden by Jean-Luc Kessas, trained by Patrick Biancone and owned by art millionaire Daniel Wildenstein, won the Prix Royal-Oak, the French St Leger, at Longchamp.

### Honda to pursue European venture

HONDA, Japanese car maker, was expected to go ahead with plans for a joint venture giving it access to the European volume car market. The company intends to co-produce with UK state-owned BL's Austin Rover division a replacement for the Maestro and Rover 200 models by 1988.

EUROPEAN Monetary System: Most currencies were quiet and featureless last week as attention remained focused on the dollar. The Belgian franc was again the weak-



est currency, but came under no pressure and the Belgian National Bank was able to keep the downward momentum on domestic interest rates by cutting the rates on short-term Treasury certificates. The Belgian discount rate was reduced on October 17.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lire) may move more than 2% per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO: Nikkei-Dow market index fell a further 22.36 to 12,832.63 on Saturday, after the sharp drop of 114.09 on Friday's trading.

A TWO-DAY strike by staff in New Zealand's banks and its Databank financial paperwork clearing centre will throw the country's banking system into chaos tomorrow when business resumes after the Labour Day weekend.

THE GOVERNOR of the Bank of England, Robin Leigh-Pemberton, added his voice to denials of allegations that the Bank was involved in criminal acts in connection with Johnson Matthey Bankers.

NEWS INTERNATIONAL, Rupert Murdoch's worldwide media group, launched a facility on the Eurozone market adding \$320m to an initial \$350m deal signed last year. The move is designed to finance Murdoch's acquisitions of Twentieth Century-Fox and Metromedia, U.S. television network.

AUSTRIA is to set up an industrial council of leading domestic and foreign industrialists to monitor international trends and advise the Government on restructuring. A government minister will also be a member.

MONSANTO, U.S. chemicals group, announced plans for a large-scale corporate restructuring. HANSON'S battle for SCM, U.S. conglomerate, is set to enter its next phase tomorrow after lawyers failed to meet a deadline for the cross-examination of witnesses in the court proceedings.

TEXAS INSTRUMENTS, U.S. semiconductor maker, reported big losses again for the third quarter and foresees no early improvement.

DELTA, U.S. domestic airline, reported a sharp fall in first-quarter net and operating earnings, partly attributed to cut-throat competition for passengers.

BUTONI, Italian foods group, bought 75 per cent of Risierio Virginia Cured, leading Italian rice producer.

## Banks expected to support Baker's \$20bn debt plan

BY STEWART FLEMING IN WASHINGTON

REPRESENTATIVES of a group of 80 leading banks, under pressure to approve by the end of the year a U.S. proposal that international banks pump \$20bn of new loans into 15 developing countries over the next three years, are expected to express support for the plan in principle at a meeting in Washington today.

But non-U.S. bankers attending the session at the Institute for International Finance (IIF) are reported to be urging that any statement should go beyond the simple endorsement for the proposal which leading U.S. banks are seeking.

Some are understood to see the meeting as part of a continuing negotiating process with industrial country and developing country governments, and among the banks themselves. They believe that while they must make clear their support for the initiative launched by Mr James Baker, U.S. Treasury Secretary, at the annual meetings of the World Bank and the International Monetary Fund in Seoul last month, they must also draw attention to issues which worry them about how that plan can be put into effect.

In Seoul, Mr Baker outlined a three-point proposal. It called on international banks to increase their lending to developing countries by \$20bn. It asked developing countries to adopt growth-oriented economic policies. Finally it called on the World Bank and the Inter-American Development Bank to increase their loans by \$8bn over three years, along with a central role for the IMF.

In the wake of that announcement, Mr André De Larosière, chairman of the IIF, a bank-financed think tank established in 1982, invited bank representatives to a meeting in Washington to discuss the proposal. U.S. bankers have already had at least two sessions with Mr Baker on the plan, one in Washington after the announcement in Seoul.

Mr Paul Volcker, the Federal Reserve Board chairman, discussed the proposal with a group of mainly regional U.S. banks at the annual meeting of the American Bankers Association in New Orleans a week ago, and other industrial country governments are believed to have opened up a dialogue on the proposal with their bankers.

The role of the IIF in the debate

about the proposal remains unclear, but it is one place where representatives of both large and smaller banks from many countries can get together.

The bankers at today's meeting are expected to raise a number of issues concerning the Baker initiative, including the thrust of macroeconomic policy in the industrial countries (in particular U.S. fiscal policy) which will be a critical element in the evolution of the debt problem.

They are expected to question the precise role that governments intend to play, particularly in relation to the tax and bank regulatory issues raised by the Baker plan, but also in relation to the availability of the official export credit. The outlook for net lending commitments by the IMF, which some fear will begin to decline as repayments to the IMF rise towards the end of the decade, and the conditions to be attached to World Bank, and particularly Inter-American Development Bank loans, are also expected to come up.

Baker banks on non U.S. creditors.

Continued on Page 16

Editorial comment, Page 14

## Employers' group calls for shift in UK policy

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON

THE CONFEDERATION of British Industry (CBI), the UK employers' group, today calls for a shift in the Government's present economic strategy to head off a weakening in Britain's recovery and to pave the way for a "budget for jobs" next spring.

In representations to Mr Nigel Lawson, the Chancellor of the Exchequer, ahead of next month's autumn statement on the economy, the CBI says that he should relax tight monetary policies to allow both interest rates and sterling to fall.

At the same time, the Government should encourage faster job creation by cutting employers' National Insurance contributions by one or two percentage points and by spending an extra £1bn (£1.42bn) a year on cost-effective construction programmes.

The recommendations come ahead of the publication tomorrow of the CBI's quarterly Industrial Trends Survey. That is expected to show a weakening of business confidence in both domestic and over-

seas markets, and a slowdown in the pace of growth of manufacturing output.

Companies are also reporting that they are still cutting their labour forces, but are said to be increasingly optimistic over the prospects for inflation.

This confidence over the outlook for prices - the CBI is predicting an annual inflation rate of only 3% per cent by mid-1986 - has prompted the industrialists to argue that the Government should now shift the emphasis of policy towards growth.

"Both fiscal and monetary policy must be made to accommodate a higher rate of economic growth than that envisaged at present for 1986," it says.

The inflationary risks of such a strategy, it says, are minimal, because the falling dollar should reduce UK input costs and because the economy has sufficient spare capacity to meet at least a one percentage point increase in economic growth.

"The CBI is pressing all these plans because it believes that the

Government's present plans will not give scope for the improvements in growth and job prospects which are vital to the UK's economic future."

It agrees that industry should do its part to boost employment by holding down wage increases, but says that the Government should also help by making it cheaper for companies to take on workers.

A cut in National Insurance contributions, it says, would have a substantial long-term impact on job prospects, while increased spending on infrastructure could be financed by savings on current outlays.

"Employment is unlikely to fall significantly from the present level without the changes the CBI is calling for," it says.

The call for lower interest rates echoes the Confederation's demands earlier this year, but has been reinforced by the evidence from companies of a sharp slowdown in export orders because of the resulting rise in sterling's value.

Union powers hold up, Page 12

## Rival groups line up financial backing for Channel project

BY ANDREW TAYLOR IN LONDON

THE TWO leading groups bidding to build a fixed link across the English channel say they have enough assurances of financial support to enable them to start work if they get the go-ahead from the British and French governments.

Provisional commitments and letters of intent received by one of the two Anglo-French consortiums run into several billion pounds.

Channel Tunnel Group, which is proposing a twin bore rail tunnel, says it has received provisional commitments from banks of between £3.5bn and \$4bn (\$4.5bn and \$5.8bn). The funds will be made available if the consortium raises up to £1bn in equity and provided it satisfies the terms of a preliminary information memorandum issued to potential investors. The group has received replies from UK institutions saying they would be prepared in principle to underwrite the equity element in full. However, it plans to sell the shares internationally, in several stages, seeking a full

listing on the London and Paris stock exchanges in mid-1987.

Around £250m is expected to be raised in Japan and the U.S. Nomura, one of the largest issuing houses in Japan, and Salomon Brothers of the U.S. have been appointed to handle the share sale. A further £100m is expected to be raised in Europe outside the UK and France which would each take about £325m of the equity issue.

Eurotunnel, the other leading contender, proposing a road and rail scheme involving a combination of bridges and tunnels connected by artificial islands mid-Channel, says it has received letters of intent from key bankers and financial institutions prepared to lead manage the raising of up to £1.2bn in equity and development finance.

It says some of the banks and institutions supporting Channel Tunnel Group are also backing Eurotunnel.

Letters of intent and provisional commitments are not legally binding, but they indicate the prepared-

ness of financial markets to support the two ventures. Whether the money is forthcoming will depend on detailed negotiations of terms and conditions which cannot take place until after the two governments have announced their decision.

Applications for a licence to build a privately financed fixed link must be lodged by this Thursday, October 31.

A report prepared by British and French civil servants must be in the hands of ministers before Christmas and the two governments plan to announce their decision by mid-January.

Four groups have said they will apply, but Channel Tunnel Group and Eurotunnel are regarded as joint favourites. The other projects are a road bridge with 5km spans planned by Eurobridge, another Anglo-French group, and a twin road tunnel and electric railway system proposed by Channel Expressway, which is backed by Sea Containers, the Bermuda-based shipping group.

## New test for fragile stability of Tokyo markets

By Carla Rapoport in Tokyo

JAPAN'S financial markets were expected to reopen in an anxious mood today, with the focus of attention once again on the yen-dollar exchange rate and on the Bank of Japan's money market policies.

Government bond prices stabilised on Saturday, although trading was thin in the nervous aftermath of Friday's heavy selling, which forced prices to record lows and caused the sharpest drop in a single day for more than five years.

The Tokyo stock market followed a similar pattern on Saturday morning. After a sharp early fall, share prices recovered much of the ground lost to close slightly down. The Nikkei-Dow market average, which lost 114.09 on Friday, ended at 12,832.63, down 22.36 on the day.

It remains unclear whether the rise in short-term money market rates on Friday was the beginning of a second stage of the agreement to depreciate the dollar against foreign currencies reached last month by finance ministers of the Group of Five (G5) leading industrial countries.

The G5 agreement stressed intervention in the currency markets, but the ministers are also believed to have discussed possible action on interest rates.

Friday's fall in Japanese government bond prices followed a warning from the Bank of Japan on Thursday that the recent surge in the bond market was extremely speculative and that it would try to continue to push short-term interest rates higher and to defend the yen's value against the dollar.

After a further fall in bond prices on Saturday morning, a few large buyers - including at least one of Japan's leading securities houses - drove prices back up by placing large orders in the thin market.

At the end of trading the 6.8 per cent 68th long-term government bond, a bellwether of bond trading on the Tokyo Stock Exchange, closed at ¥103.186 - only slightly down on Friday's close of ¥103.39. The yield gained 0.03 per cent to 6.25 per cent.

"It was a marvellous recovery," said one enthusiastic dealer over the weekend. It was believed in Tokyo that the heavy buying was prompted, at least in part, by displeasure on the part of the Ministry of Finance at the precipitous drop in prices on Friday.

Friday's fall was understood to have caused heavy losses for several leading Japanese commercial banks.

International capital markets, Section II

## EEC capital barriers set to fall at last

BY QUENTIN PEEL IN BRUSSELS

EEC finance ministers will today be asked to take their first decision to liberalise capital movements within the Community, after 23 years of inaction.

The move will allow unit trusts and similar collective investment funds to operate freely across EEC frontiers.

At present, capital movements are officially free for dealings in quoted securities, trade credits, and personal capital transactions within the Community. Unquoted securities, unit trusts, and the flotation of foreign securities on domestic markets, however, are subject to strict conditions.

These categories were established by the last EEC capital directive in 1962.

The draft directive is finally being presented for a decision seven years after it was first drawn up, and is regarded as a significant step towards general liberalisation of capital movements, including opening up the EEC insurance market.

Problems still to be ironed out concern how the regulations, which would come into force from mid-1989, can be reconciled with continuing exchange controls in member states such as Italy and Ireland. Officials in Brussels are confident, however, that they are close to

agreement and will have a final deal by the end of the year.

The ministers will actually have two directives to approve. One will establish common rules for "undertaking for collective investment in transferable securities" (UCITS), which includes unit trusts and open-ended investment companies.

The second directive would amend previous EEC rules on capital movement to allow the free flow of capital concerned in unit trust transactions.

The decision will establish rules for unit trusts requiring substantial changes in national legislation. It will also establish for the first time the idea that supervision of an individual company in one member state is sufficient to allow it to operate throughout the Community.

Those countries allowed to maintain exchange controls - France, Italy, Ireland and Greece - will still be allowed to operate them, so that unit trusts would be able to sell there, but not to repatriate the money. However, officials hope that France at least will have relaxed its controls before 1989.

The UK unit trust industry ranks second or third in the EEC, depending on the definition, after France and West Germany, and is valued at about £16bn (\$22.7bn).

## Airline profits too low, says Iata chief

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT, IN HAMBURG

THE WORLD airline industry must improve its profitability substantially if it is to finance future equipment and pass on to consumers the benefits of cheaper fares.

Mr Gunter O. Eser, director-general of the International Air Transport Association (Iata), which represents 140 airlines, says in his report to the annual meeting this week that in 1984 the industry earned a net profit of \$1bn, or 1.4 per cent of revenues.

"Although these are the best results for several years, they are well below the levels required to finance the industry in the years ahead," he said.

The outlook for 1985 was already causing concern and on present indications the airlines "might barely break even after interest" so far as international scheduled services are concerned.

Mr Eser says the Iata airlines are estimated to need at least 4,000 new aircraft by 1993, of which 1,800 will replace existing jets and the rest will be needed to meet traffic growth. With spares and other items, the cost will be between \$150bn and \$200bn.

"Financing the investment will present problems," he said. "In 1984, the airlines together made a pre-tax profit of about 1 per cent of revenues on international scheduled services."

"In 1985 and 1986, they are unlikely to achieve even that level - which is about 7 per cent short of what is estimated to be the minimum average long-term requirement both to finance the invest-

Continued on Page 16

Cheaper European fares, Page 12

International	2-4
Companies	9-18
World Trade	6
Britain	11-12
Companies	22
Arts - Reviews	13
World Guide	13
Crossword	36
Currencies	36
Editorial comment	14
Europe	17
Financial Futures	17, 19-20
Letters	15
Lex	16
Lombard	15
Management	14
Men and Markets	10
Money Markets	36
Stock markets - Bourses	33
Wall St	34-35
London	28-29
Technology	8
Unit Trusts	30-32
Weather	16

Technology: conjuring up television screen images	8
Editorial comment: the City of London; Third World	14
UK teachers' pay: marks that may not wear off	14
Foreign Affairs: why we need an entente cordiale	15
Lombard: taking the UK Labour Party seriously	15
Lex: gilt-edged market under the hammer	16
The Leisure industry: Survey	23-26
West Germany: Survey	Section III

**NOW!  
IT'S  
1985**

(Just to warn you that in four day's time the F.T. will not be carrying a survey of Britain's most enterprising town, so you will need 'The Times' as well.)



## OVERSEAS NEWS

## Peres optimistic on talks between Israel and Jordan

BY WALTER ELLIS IN JERUSALEM

PEACE negotiations between Israel and Jordan are a growing possibility, Mr Shimon Peres, the Israeli Prime Minister, said yesterday.

Reporting to the Unity Cabinet in Jerusalem following his visit last week to the U.S. and France, Mr Peres said that he had perceived a "dramatic change" in international attitudes towards peace talks and the Palestine Liberation Organisation.

His call to the United Nations Security Council last week in New York to convene direct talks between Israel and a Jordanian/Palestinian delegation could, he told ministers, result in direct bilateral negotiations.

Mr Peres arrived back in Jerusalem expecting a barrage of criticism from right-wing Likud members of the Cabinet. However, his performance abroad has been received with such acclaim, especially in the U.S., that his critics have been disarmed.

The Prime Minister gave an assurance that he had not urged an international conference on the Middle East and had not backtracked on the Government's refusal to negotiate with

Israeli warplanes struck at a Palestinian guerrilla complex yesterday and an Israeli official in Tel Aviv said eight buildings were hit and tanks, armoured vehicles and an ammunition dump destroyed in the raid, Neta Bonstary reports from Beirut.

There was no word on casualties but the Syrian-sponsored National Palestinian Salvation Front confirmed the attack.

Reports said two bases of the Syrian-backed Popular Front for the Liberation of Palestine at the central Lebanese villages of Barr Elias and Tannayel, were targeted.

"terrorists."

Several Likud ministers had predicted political fireworks to greet the Premier's return. In the event, little opposition was staged and the Cabinet session was largely one-sided.

If Mr Peres is right in his assessment that international, especially Jordanian, support, is drifting away from the PLO, then the deadlocked peace process with Amman might indeed be jerked free.

U.S. support for the Peres initiative seems clear, and even the Soviet Union could be drawn into participation via the Security Council. Mr Peres is anxious not to allow Moscow to adopt too prominent a role but would be willing to accept some Soviet involvement simply in order to get things moving.

This would especially prove the case if the quid pro quo was an early re-establishment of diplomatic relations between Israel and the Soviet Union suspended since the six-day war in 1967.

Jordanian reaction to Mr Peres' call for direct talks via the Security Council remains to be seen. Early conflict seems inevitable. While the Likud remains less than fully committed to negotiations that would include the future status of the West Bank and Gaza, Mr Peres still faces opposition in Israel.

The Israeli Premier, however, has stamped his personal authority on the process, with U.S. backing. The next move should come from Amman, where relations between King Hussein and Mr Yassir Arafat, the PLO leader, are again tense and uncertain in the wake of the Achille Lauro affair.

## S. Africa to boost strength of police force

By Anthony Robinson in Johannesburg

THE SOUTH African police force is to be increased by 11,000 to 56,000 over the next 18 months and many new police stations are to be built in black townships, the police announced over the weekend.

The move is part of a long-term plan to ease manpower shortages.

A front page report in the Afrikaans Sunday newspaper Rapport also hinted at strict curbs on reporting by the foreign media following complaints from senior police officers that the police force was "practically powerless" against African National Congress (ANC) propaganda.

"The biggest stumbling blocks in the struggle against the ANC are hostile minded media people especially foreign newspaper and TV people," Rapport said.

"The false image which these sensational hunters send out to the world is making the police task almost impossible. Unrest could have been over long ago if the Press did not let itself be intimidated so easily by the ANC."

Rapport, which is close to ruling National Party thinking, added that strong action can be expected against the foreign Press within the next few weeks.

Meanwhile three blacks were killed by the police, two at Zwijde, near Port Elizabeth, and one at Langa, near Cape Town, as violence continued in townships in many parts of the country despite the extension of the state of emergency to the Cape Town area on Friday night.

Michael Holman writes: Reports that Mrs Margaret Thatcher, the UK Prime Minister, would nominate Sir Geoffrey Howe, the British Foreign Secretary, to lead a Commonwealth diplomatic mission to South Africa were described as "speculative" and "premature" by Government officials last night.

Downing Street confirmed, however, that Sir Geoffrey was a possible candidate as Britain's representative on the mission, but no nomination had yet been put forward.

## Baker banks on non-U.S. creditors

BY STEWART FLEMING IN WASHINGTON

Mr James Baker, U.S. Treasury raised eyebrows last week when he told Congress he expected non-U.S. banks to contribute about \$15bn (\$500m) of the \$20bn of new commercial bank lending over three years called for in the plan he has proposed to boost economic growth in developing countries.

It has been widely assumed that, not least because Latin American nations are the main focus of the Baker initiative, it would be U.S. banks which would have to shoulder the major burden of increasing their loans to the 15 developing countries Mr Baker is targeting for special help.

Both Government and private statistics show clearly that even in Latin America it is non-U.S. banks, including European and Japanese lenders, who hold

## OUTSTANDING DEBT OF 15 BORROWERS

\$bn in 1984

	Total debt	Bank debt
Argentina	47.8	32.0
Bolivia	4.2	1.1
Brazil	192.9	73.7
Chile	20.4	15.6
Colombia	12.6	7.3
Ecuador	7.6	4.7
Ivory Coast	6.2	2.6
Mexico	95.5	77.1
Morocco	13.2	3.4
Nigeria	19.2	5.7
Peru	13.4	4.7
Philippines	26.2	13.4
Uruguay	4.7	2.5
Venezuela	34.9	27.6
Yugoslavia	18.5	7.9
Total	476.5	279.6

most of the debt. The misperception that this is not the case derives in part from less rigorous disclosure requirements for non-U.S. banks. But it is also the case that in relation to their capital and their total loan portfolios some individual U.S. banks are generally believed to be more deeply committed, particularly in Latin America, than most of their foreign competitors.

Nevertheless, foreign bankers meeting in Washington today to debate their response to the Baker plan are thus well aware of the burden of responsibility they bear in formulating that response.

According to data drawn up from private banking sources banks hold about 66 per cent of the \$426bn of debt which the 15 borrowers had outstanding at the end of last year. The nine Latin American countries on the list accounted for 70 per cent of the bank debt.

Figures prepared earlier this year by Morgan Guaranty Trust of New York and published in the July issue of World Financial Markets covering all Latin American nations suggest that Latin America had bank debt outstanding of \$242.6bn at the end of last year of which two-thirds was owed to non-U.S. banks.

U.S. Government data for the nine Latin American countries covered by the Baker plan broadly confirms this split, putting U.S. bank loans to the region at slightly over one-third of the total.

Even in the four major Latin American debtor nations—Argentina, Brazil, Mexico and Venezuela—non-U.S. banks held 65 per cent of the \$200bn of outstanding bank debt at the end of last year, according to Morgan Guaranty.

## Alfonsin appeals arrest ruling

BY JIMMY BURNS IN BUENOS AIRES

ARGENTINA'S main appeals court was yesterday meeting in extraordinary session in an attempt to settle the deepening and politically confusing conflict of powers between the Executive and the judiciary a week away from next Sunday's mid-term Congressional and municipal elections.

Over the weekend two judges squashed a series of arrests ordered by President Raul Alfonsin's Government under a limited state of siege declared on Friday and ordered the release of five military officers and two civilians allegedly linked to the recent wave of bomb attacks.

The ruling—the second direct challenge to an Executive decision by the judiciary in less than a week—was immediately appealed by the Government on constitutional grounds opening up the prospect of an eventual intervention by the Supreme Court.

The two judges based their decision on a law recently approved by Congress, but apparently overlooked by the Government, empowering the judiciary to review the legitimacy of arrests ordered under a state of siege.

The judges claim there is no evidence justifying the continued detention of the seven,

who include senior army intelligence officers and a journalist working for the conservative La Prensa newspaper.

On Saturday night Sr Carlos Aramburu, the Minister of Justice, accused the judges of interfering with executive powers and of "causing social alarm" by allowing the release of individuals accused of "conspiring against democracy." He insisted that the state of siege had been declared precisely with the aim of giving the Government the necessary foolproof constitutional and legal framework with which to act more effectively against suspected terrorists.

Unlike other veteran African presidents such as Tanzania's Julius Nyerere and Sierra Leone's Siaka Stevens, both stepping aside this year, President Boigny, 80, has decided to continue to lead this stable and prosperous West African state of nearly 10m people.

He had been expected to name a vice president and official successor at a congress of the PDCL-RDA, the country's sole political party. But he again changed the constitution and reverted to the previous formula whereby the president of the National Assembly would take office for a 45-60 day interim period while presidential elections were organised.

Mr Ali Nassan Mwinvi was expected to be endorsed as successor to President Julius Nyerere by the Tanzanian electorate yesterday.

Mr Mwinvi is due to be sworn in on November 2, when Mr Nyerere will step down.

## McFarlane denies splits on summit

BY OUR WASHINGTON STAFF

MR ROBERT MCFARLANE, President Ronald Reagan's National Security Adviser yesterday vigorously defended the Administration against charges that it is divided over its approach to the summit meeting with the Soviet Union scheduled to be held in Geneva next month.

"President Reagan runs his policy process and he intends to set a course which will make progress in his relationship with the Soviet Union," Mr McFarlane said. He added that the diversity of opinion which Mr Reagan receives ensures that he has before him high quality input into the decisions he makes.

Mr McFarlane in a television interview said that arms control will undoubtedly be on the agenda in Geneva. He indicated last week that Mr Reagan was working on a new arms control proposal. Yesterday he said that he is expecting Mr George

Shultz, U.S. Secretary of State, to resolve a number of minor bilateral issues — he cited Pacific air safety — on his visit next week to Moscow.

Mr McFarlane's comments follow disappointment in Europe with the truculent tone which Mr Reagan adopted in his speech to the United Nations last week and fears that divisions within the Administration will make it difficult to achieve arms control progress in Geneva.

## Gandhi rejects Pakistan denials

BY JOHN ELLIOTT IN NEW DELHI

THE INDIAN Prime Minister, Mr Rajiv Gandhi, yesterday refused to accept that Pakistan is not developing nuclear weapons despite personal assurances to the contrary given to him last week in New York by President Zia ul Haq.

But while this key point of difference remains, the two leaders did agree to try to improve the fractious and often hostile relations between their countries by starting talks on the problem of infiltrators crossing from Pakistan into the northern Indian states of Punjab and Kashmir. They will also try to improve trade relations.

This emerged yesterday when Mr Gandhi returned from a two-week foreign tour which reinforced his international image and ended with a sudden visit to Moscow for talks with Mr Mikhail Gorbachev, the Soviet leader.

The Moscow visit sparked speculation that Mr Gandhi was either mediating between the U.S. and USSR on nuclear disarmament or Afghanistan, or was discussing the problems of Pakistan's alleged nuclear programme.

Last night Mr Gandhi denied he was mediating but added that the Non-Aligned Movement, of which he is chairman, is always a bridge between the super powers.

He said the Moscow visit on Saturday had been planned but not finalised in advance, a claim supported by his leaving his aircraft in Moscow wearing a fur hat and top coat.

But journalists accompanying him said they had no knowledge of the change of plan till the last minute. In New Delhi, reception arrangements for his expected return on Saturday continued right through last week.

The dramatic visit enabled Mr Gandhi to show U.S. President Ronald Reagan, with whom he had talks at the United Nations, that India is non-aligned and is also close to the USSR.

Mr Gandhi said Mr Gorbachev's initiative on nuclear disarmament "must be looked at seriously and considered seriously." He added that while India found the Soviet Union "very understanding" with similar views to its own on many issues, India differed from the U.S. on matters such as Pakistan's nuclear policy and South Africa.

Asked how he had managed to line up with the views of British Prime Minister Margaret Thatcher on sanctions against South Africa at the Commonwealth conference, he replied: "We did not go along with her. She came along with us."

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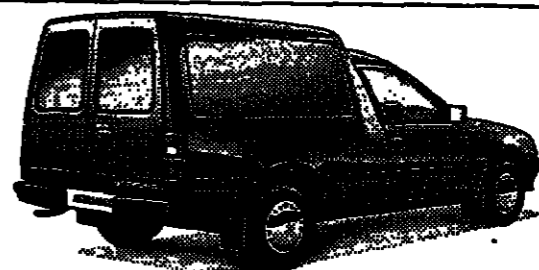
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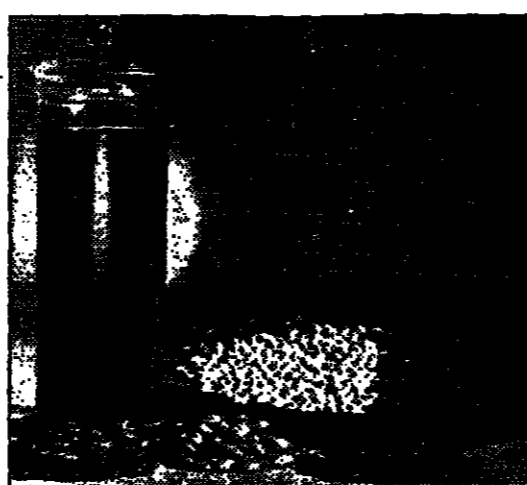
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## OVERSEAS NEWS

### Mostek closure forces rethink on Irish high-tech sector

BY HUGH CARMODY IN DUBLIN

HANGING IN the now near-deserted entrance hall of Mostek, Ireland's high-tech Dublin plant, is an extravagant artist's impression of what might have been.

The picture of crisp, brick-built buildings interspersed with pools and fountains and set on a spacious industrial estate symbolised ambitious plans the U.S.-owned company had for expanding its microchip business.

It was to be an important contribution to Ireland's effort to build a thriving electronics industry as an important plank in its industrial development.

Earlier this month Mostek's operations worldwide were shut down by its parent company, United Technologies, and its 417 Irish employees were laid off. They left a factory only a fraction of the size envisaged by the optimistic artist standing forlornly empty, its function of assembling and testing integrated circuits halted.

Is the fate of Mostek, once a bright star in the Irish Industrial Development Authority's (IDA) firmament, a chill omen for the republic's 15-year old electronics industry as a whole? The industry boasts such names as Apple, Digital, Scicon and Fujitsu.

The answer seems to be no, but the IDA will have its work cut out to maintain healthy growth rates in the sector and achieve its goal of establishing - in the words of Mr Martin Lowery, IDA executive director - an indigenous, internationally-based electronics industry.

Mr Lowery and Mr Peter Lynch, Mostek Ireland's managing director, pointed out that Mostek's collapse did not stem from having a plant in Ireland. It fell largely because it was operating with a narrow product base in the slumping semiconductor business and was hit by rising competition from Japan.

Looking on the bright side, Irish officials said that in its six years in Ireland, the company had ploughed £40 m (\$46.5m) into the local economy for the cost of about £5.5m in grants, most of which would be paid under a contingent grant liability scheme.

However, Mostek had at one time planned to expand into microchip manufacturing in Dublin, employing up to 1,200 people, and its closure followed shutdowns earlier this year, with the loss of 500 jobs, of Atari and Storage Technologies Irish plants.

In a sector comprised of some 300 companies employing 22,000, or 11 per cent of the manufacturing workforce, and growing last year in output at about 20 per cent, such setbacks can be accommodated.

"But the IDA must pick the winners," said Mr Michael Pearce, chief executive of Mentec, the Irish

automated systems producer. He said he was optimistic for the future of the industry in Ireland but it had still to develop more depth and stability.

This view is shared by Mr Finbar Donovan, assistant general manager of Allied Irish Banks, which is both a consumer and leader to the industry. He stressed that in seeking to entrench electronics in Ireland, the IDA and the banks must concentrate on companies with developing product ranges - unlike Mostek - and a significant dependence on local labour skills and supplies.

Crucial to this is the IDA's national linkage programme, set up in the last year, which aims to increase the proportion of local content in products put together in Ireland. Mr Lowery said about 20 per cent of raw materials used by the electronics industry was bought locally, which the IDA wanted to raise by about 1 per cent per year across all sectors. The linkage programme was intended to stimulate £100m of extra business for Irish suppliers over the next five years.

This is generally acknowledged to be a tough task. "It should have been started years ago," said one senior executive. He said many foreign electronics companies in Ireland would be doing very well if they got as high as 20 per cent local input.

The linkage programme ties in with the IDA's efforts to encourage foreign companies to get into product development and manufacture in Ireland, to increase local value retention, and to broaden the range of products and thus spread any risk of industry collapse.

At present, the largest sub-sector in employment terms is components, with nearly 7,000, followed by data processing with about 5,700. Software manufacture accounts for about 3,000 and industrial electronics 2,500 with the volatile consumer sector employing only 800.

About one quarter of overseas companies have product development plans. Examples include Analog Devices, which is setting up a research and development centre and a wafer fabrication facility in Limerick, and Kollmorgen Corporation, which recently announced £15.5m plans for two plants in Ennis, Co. Clare, and Ballyshannon, Limerick.

The IDA lays great stress on the availability of a skilled workforce, fed by a growing emphasis in the past five years on producing high-quality technical graduates, a policy which has led to the concentration of electronics companies around the university cities of Dublin, Cork, Limerick and Galway.

Electronics industrialists caution, however, that raising the amount of

fundamental research and development carried out in Ireland will be very difficult as many companies will want to keep their product development home-based.

A handful of Irish companies has also sprung up, mainly aimed at small specialist markets. Lats Electronics, for example, makes telephone switchboards for small businesses, and RTSO makes software for IBM.

For companies looking to expand or set up in Ireland, the incentives remain high. The IDA offers guaranteed corporation tax rates of just 10 per cent with building and machinery costs also tax-deductible. Grants are generous and training costs are often paid for wholly by the IDA. Under special legislation, banks can lend a limited amount to companies in return for dividends in lieu of interest with the dividends tax free. For foreign companies there is the added attraction of a skilled and relatively cheap workforce to go with the EEC gateway to big European markets.

Irish officials believe they can offer attractions as good or better than, for example, Scotland where the industry is older and about twice as big.

The main drawbacks are a limited domestic market and the less tangible worry that other European countries might put pressure on companies with a large market share on their soil but no factory presence.

The IDA acknowledges that growth in terms of job creation will slow down. Earlier targets of 25,000 people in the industry by this year and an ultimate target of 40,000 have been put quietly to one side. The trouble is that pressure on the authority to create jobs is great in a country with more than 17 per cent unemployment and half its population under the age of 25.

This, and fears that the electronics industry may prove fragile and of more benefit to foreign companies than to this country, have prompted some economists to suggest an alternative strategy of long-term state investment in such industries as engineering and food processing.

The IDA insists it gives value for money, not least in the sector's contribution to Ireland's balance of payments. Electronics exports totalled £12.5m last year, 35 per cent of manufacturing exports. In the first eight months of this year, the figure reached £11.7m, compared with £11.4m in the same 1984 period.

Maintaining such growth is crucial, Mr Pearce said. "I'd hate to write off electronics as a growth industry in Ireland. If it can't come in electronics, where can it come?"

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### Colombia asks IMF not to send mission

BOGOTÁ - Colombia has asked the International Monetary Fund (IMF) to postpone a planned visit this week, saying conditions were not appropriate.

The request was made in a letter to Mr Jacques de Larosiere, the IMF managing director, from Sr Hugo Palacio, the Finance Minister and Sr Francisco Ortega, the central bank governor.

An IMF mission, part of a quarterly monitoring of the Colombian economy agreed earlier this year, was expected in Bogotá today.

In the letter Sr Palacio and Sr Ortega said the IMF had been "faithless" in allowing the release of a memorandum on the Colombian economy written ahead of the scheduled visit.

They said the memorandum mentioned aspects of fiscal policy, the need to curb inflation and control the balance of payments current account deficit, that the Government had already corrected.

The document did not take into account September figures, they said.

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Deep in the almost impenetrable rain forests of the Amazon, where only the most intrepid explorer dares to tread, there grows a vine called *Chondrodendron tomentosum*.

From this, the South American Indian tribes have for centuries produced a deadly arrow poison which we know as curare.

It was noted as long ago as 1541 when the Spanish explorer, Francisco de Orellana, lost a companion after an Indian shot him with a curare-tipped arrow. "The arrow did not penetrate half a finger, but, as it had poison on it, he gave up his soul to our Lord."

Luckily for most explorers, the main purpose for which the Indians chose their poison was for hunting animals. When "injected" by a curare-tipped arrow, their prey could still be eaten quite safely since the poison is not effective when taken by mouth.

Exactly how this poison works remained a mystery until 1842, when the physiologist Claude Bernard discovered that it has a blocking action on the neuro-transmitters to the muscles, which then relax completely. For the unfortunate recipient of one of these arrows, the respiratory muscles also relax and death soon occurs through asphyxiation.

The secret process for the preparation of curare was not recorded in accurate detail until 1912, when Charles Waterton, a somewhat eccentric naturalist, set out with the avowed intention of obtaining a sample of this deadly poison.

He described how the Indians made curare and noted the inclusion of ants and two snakes, although it was obvious that the main ingredient was a vine.

He also reported an ingenious method of rating its potency. If a monkey hit by a poisoned dart was able to jump no further than the next tree before falling dead, it was "one-tree curare" and a very good brew. If the monkey made it as far as two or even three trees, then it was given the lower rating of "two" or "three-tree curare." (Much to the monkeys' relief, modern chemical methods of assaying curare are far more precise.)

It was not until the completion of experiments conducted by Waterton that curare was seriously considered for medical use.

This was finally made possible in 1935 by Dr. Harold King, when he isolated the chief paralysing ingredient of curare. He named it *tubocurarine* after the traditional bamboo tube which the poison was packed in.

This "chemical milestone" meant that the production of curare could be standardised and safely tested.

Eventually, this led to the revolutionary use of the drug in making anaesthesia much safer by permitting lower doses of anaesthetic. And it made abdominal surgery much safer and simpler by rendering the stomach muscles flaccid.

Today, the vine is still collected in the rain forests where the extract is boiled down to a dark, treacly resin. This then makes its way to Peru by mule and light aircraft and, if samples prove satisfactory, it is shipped to this country where the manufacture of *tubocurarine chloride* is carried out by the pharmaceutical industry.

But the industry has not stopped there. Based on experience with *tubocurarine*, it has developed some new muscle relaxants providing a comprehensive range for today's more advanced surgical techniques.

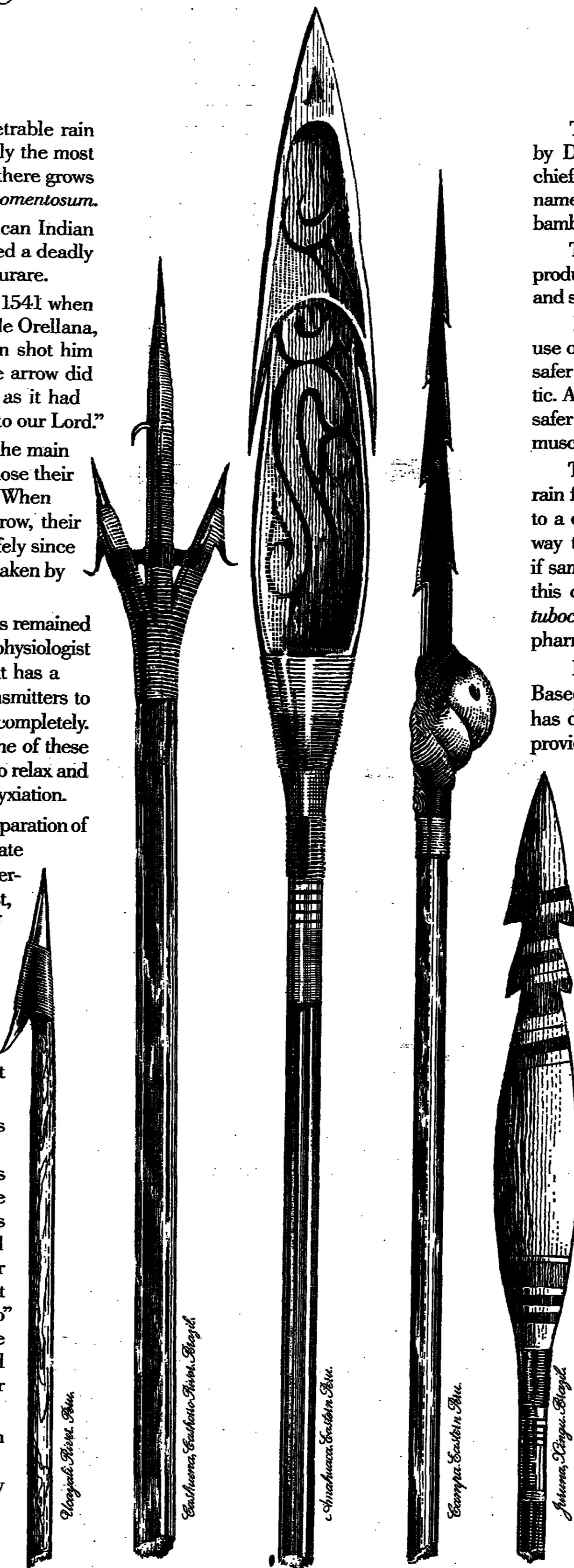
The modern-day use of these drugs in the operating theatre is the result of the combined efforts of botanists, physiologists, pharmacologists, South American Indians of yesterday, their descendants in Ecuador and Peru and, of course, the pharmaceutical industry.

It is through this kind of international co-operation that the British pharmaceutical industry is able to contribute to world health. And, in turn, to contribute to the financial health of this country.

The industry's exports in 1984 were worth over £1,200 million, giving a net balance of trade of some £680 million. (Projected exports for this year are £1,400 million.)

Were it not for the investment which this industry is able to make in research, these figures would not have been so impressive. And these arrows may never have fallen into the right hands.

If you would like to find out more about the British Pharmaceutical Industry, please write to:  
Dr. John Griffin, The ABPI, 12 Whitehall, London SW1A 2DY.



The Association of the British Pharmaceutical Industry.



## THE CHANNEL PROJECT

## The French connection: runners and riders

By Andrew Taylor

APPLICATIONS FOR a licence to build a privately financed link across the English Channel must be lodged with the British and French governments by this Thursday unless there are some surprise late entries, it looks like being a four horse race.

Plans range from a twin bore rail tunnel, a road bridge with 5 km spans, and a road and an electric train, and a road and rail scheme involving an ambitious combination of bridges, tunnels and artificial islands mid-Channel. Tolls, say the promoters, will be in line with prevailing sea ferry charges.

The two governments hope to announce the winner by mid-January. First, applicants must show they have complied with a long list of official guidelines on financial, technical, environmental and safety matters.

They must show they have sufficient finance to complete a project which could cost more than £2bn, after allowing for inflation and interest charges, depending upon which option is chosen.

One option would be to choose nobody and let the whole thing lapse. This appears increasingly unlikely given the strong support from both British and French administrations which see a link as a potential vote catcher with crucial elections due shortly.

The financial markets, which have to raise the cash to pay for the project, are more cautious. Soundings taken in recent weeks suggest that sufficient banks and institutions are willing to attach their names to enable the two leading schemes to proceed. But commitments are only provisional.

The real work will come after January, when a winner is announced, and detailed funding negotiations begin. The project could still fail if money promised fails to materialise. So who, if anybody, is the City of London backing to win the race?

**EUROROUTE:** One of the two class runners in the competition. It proposes road bridges stretching 8.5km from the English coast, 7km from the French, to artificial islands connected mid-Channel by a 21km road tunnel.

The island and bridge sections will be prefabricated on shore at shipyards and steelworks in Britain and France. Positioning and final construction will involve many of the techniques used in the development of North Sea oil fields.

The central core of each island will be a cylindrical concrete structure through which vehicles will spiral 30m below sea level to a submerged tube tunnel embedded in a trench dredged in the sea floor.

Each island will have room for hotels and shops as well as a yachting marina—the question of whether duty free shops will be allowed on a link has still to be decided. A third island will be constructed midway to house ventilation ducts for the road tunnel.

Euroroute proposes a separate rail scheme involving a 38 km twin tracked immersed tube tunnel stretching from coast to coast. This will not be built until after the road scheme is completed say the promoters.

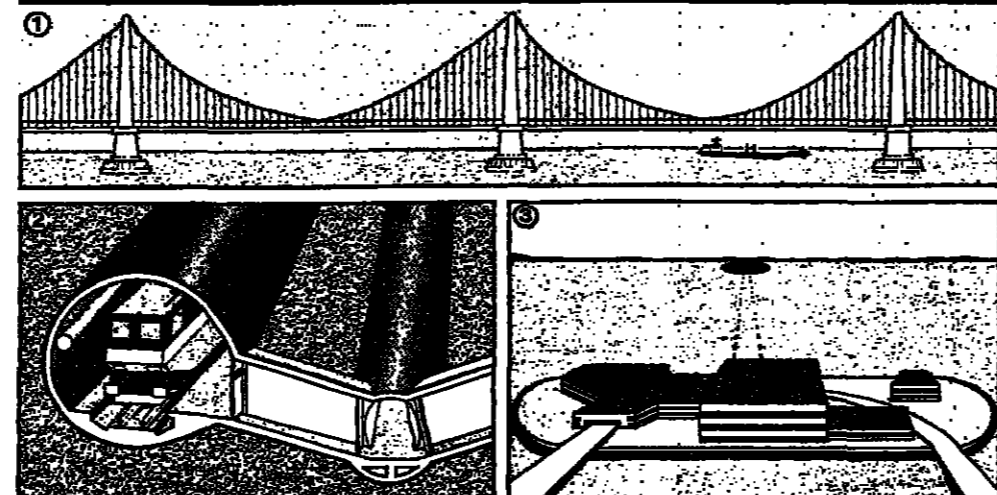
Cost: The capital cost of the road scheme is £3.6bn at 1985 prices and £1.3bn for the rail tunnel. After allowing for inflation and interest charges the projected requirement for funds rises to £8.5bn and to £9.7bn if allowance is made for possible cost overruns, says Euroroute.

Promoters: An impressive list of British sponsors includes Trafalgar House, British Telecom, Associated British Ports, GEC, British Steel, British Shipbuilders, Barclays Bank, Kleinwort Benson and John Howard construction company.

French members of Euroroute include Société Générale and Banque Paribas (both banks), Alstom, the shipbuilding, heavy electrical machinery and railway equipment manufacturer, Compagnie Générale d'Electricité (CGE), which is closely involved with French nuclear and rail investment programmes and GTM-Entrepose, a major civil engineering group.

Advantages: A drive-across scheme has more popular appeal than a rail-only option. Moreover, a strong list of sponsors and a particularly persuasive British chairman in Sir Nigel Brookes, head of Trafalgar House, appears to have gained ground with Mrs Thatcher. Prefabrication of bridge and tunnel components means that extra jobs can be located in areas of high unemployment.

## CROSSING THE CHANNEL: SOME OF THE OPTIONS



A road bridge, a rail tunnel and a combination of bridges, tunnels and mid-Channel islands: three of the schemes which the British and French Governments will consider.

employment like Scotland, north east England and northern France.

Disadvantages: More expensive than its nearest rival, the twin bore rail tunnel. Euroroute's more adventurous design and construction is less likely to appeal to conservative bankers and financial institutions, although the consortium says it received sufficient indications from financial markets that the money will be there to complete the project if it gets the go-ahead.

**CHANNEL TUNNEL GROUP:** Another front runner, it proposes twin rail tunnels, connected by a central service tunnel, bored at an average depth of 40 metres below the sea bed. Each of the main tunnels, 7.3m in diameter, 50km in length of which 37 km is under the sea, carries a single rail track on which will run a privately operated rail shuttle capable of handling 4,800 vehicles an hour in each direction.

The system is capable of handling trains leaving every five minutes with an average journey time of 30 mins, say the promoters. The tunnels will be powered by overhead electric cables fed from the national grids. Fresh air will be blown through the service gallery from

ventilation plants at Dover and Sangatte.

Roll-on roll-off rail terminals at Fretthun in northern France and at Cheriton, on 350 acres in south east Kent, will provide toll booths as well as British and French customs, health and immigration facilities to provide one-stop border controls. There will be high and low level platforms to service double-deck shunters' wagons.

The French intend to construct a new high speed rail link between Paris and Brussels with a connection to Fretthun, says CTG. This would allow the TGV, the French high speed train—modified for British loading gauge and traction specification—to run to London.

On the British side the promoters propose that a new international rail passenger terminal, also with its own customs and immigration facilities, should be built at Ashford station.

Approximately 6m cubic metres of spoil are likely to be produced by the tunnels, of which 4m cubic metres will be disposed of in the UK. Most of this will be used to level the Cheriton site and to reclaim land and stabilise sea cliffs under which the tunnel will run.

Cost: The capital cost of the

faster more reliable and regular service than the sea ferries.

**EUROBRIDGE:** Proposes a 35 km road bridge with seven 5 km spans. The longest span so far constructed is about 14 km but Eurobridge says far longer spans are possible by the revolutionary use of suspension cables made of parafibre. This is a composite fibre, developed by ICI/Dupont Fibres, which has the same strength as steel for slightly less than one-sixth the weight.

Motorways will run on several levels, 70m above sea level, fully enclosed in a steel and concrete shell. In addition, Eurobridge plans a single track rail tunnel.

Cost: The road and rail project is estimated at just under £5bn at 1985 prices. This rises to around £9bn after allowing for inflation and interest.

Promoters: Eurobridge describes itself as a loose consortium of designers, consulting engineers, construction and financial interests. Names associated with the project include Brown & Root (UK), ICI Fibres, John Laing and the merchant bank Arbuthnot Latham.

Advantages: A road scheme with far greater capacity to cope with an increase in traffic than Euroroute's bridge and tunnel scheme.

Disadvantages: The cost and technology will dissuade financiers and politicians.

**Channel Expressway:** A fourth scheme promoted by Sea Containers, the Bermuda based shipping group, has only emerged in recent weeks. This is understood to involve twin tunnels housing two lane motorways and an electric train running on rails embedded in the hard shoulder to the road.

Sea Containers, which last year acquired the UK arm of Sealink, the ferry company, has also been a strong supporter of Flexlink, a group composed largely of ferry companies and Dover Harbour Board which has strongly opposed the construction of a fixed link.

Flexlink is also expected to make a submission to the Transport Department next week outlining plans to expand ferry services. That would be the fifth option for ministers to consider: no fixed link at all.

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## How good were the good old days?

The Victorians made a virtue of hard work, and they built well. Their drains (1) and bridges, town halls and railways testify to an age of remarkable enterprise and achievement. But they were also hard times. For many people (2), food was often scarce, and the workhouse never far away.

The young navy (3), could not expect a life-span much over 40. Even in the large families of the well-to-do (4) many infants would never see a first birthday. Fortunately, other things were happening in the 1860s which would help remedy such conditions.

In the new field of organic chemistry, Phenacetin in 1888 and Aspirin in 1899 were just two of the results of early Bayer pharmaceutical research into the relief of pain and in the fight against sickness. For the farmer, the battle against plant disease and pests is never ending: selec-

tive weedkillers and pesticides have been his invaluable ally since the first synthetic insecticide came from the Bayer laboratories in 1892. Industry has gained an exciting new generation of materials. Polyurethanes, and high-performance plastics are light in weight, strong as steel, and proof

against corrosion, making possible new concepts of design and construction. Many problems remain, but the contribution made by chemical companies like Bayer has ensured that more people will live longer, and enjoy better health, in a lifestyle undreamt of in Victorian times.

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For more information about Bayer and a colour print of this painting, please write to: Dept. A, Bayer UK Limited, Bayer House, Newbury, Berks. RG13 1JA.

## TECHNOLOGY

## Genentech growth drug approved in the U.S.

A drug designed for the treatment of growth retarded children and created by bio-engineering technology has been approved by the U.S. Food and Drug Administration.

The growth hormone is to be marketed by Genentech, the company which developed it, under the name Protropin. It is only the second human pharmaceutical to be manufactured by the advanced bio-engineering technique known as recombinant DNA. The first recombinant human pharmaceutical, insulin, used in the treatment of diabetes, was also developed by Genentech.

Between 10,000 and 15,000 children in the U.S. suffer from growth hormone deficiency, according to the Human Growth Foundation.

Mr Robert A. Swanson, Genentech chief executive officer, said: "Genentech's ability to produce literally limitless quantities of therapeutically useful proteins such as human growth hormone is a clear example of the major impact that biotechnology will have on health care in the years ahead."

He said that products would be used to treat heart attacks, haemophilia, cancer and other diseases.

Recombinant DNA technology involves the biochemical insertion of human genetic material into bacteria which function as miniature factories, producing large quantities of the protein for which the genetic material codes.

Protropin will be marketed by Genentech under the company's own label. Genentech believes it has thus become a fully fledged pharmaceutical company rather than a research and development organisation.

## How digital optics help conjure fantasy pictures to dazzle the TV viewer

Alan Cane reports on a fledgling company which uses advanced video editing equipment to create dramatic visual illusions for television commercials

During the Apollo moon shots, broadcasters were careful to make it clear to their viewers when the images they were broadcasting came genuinely from space and when they were studio simulations. Nothing else would have helped the viewers to tell the truth from the false.

Dramatic progress in the electronic manipulation of television images is making that kind of clarification increasingly important, not so much, perhaps, because the quality of the image has improved (although that is certainly true) but because of the new speed and economy which digital optics has brought to the creative process.

"What used to take two to three days on film can now be carried out in a couple of hours on video," says Mr Steve Dann, joint managing director of Video Tape Recording (VTR), a new specialist video editing service which features some of the most advanced computerised electronics in the UK.

It is making its name for work on television commercials, an area which might seem to invite electronic abuse. But Mr Dann, while not complacent, is relaxed about the risks. "It is technically possible, but we are very well chaperoned by the

television and advertising regulatory bodies." VTR, started up only a few months ago with finance from the Bank of Boston, is tiny compared with the giants of the industry like Mollinair, a big video facilities company with a complete range of equipment for editing videotapes, or the Moving Picture Company which has a high reputation for creating stunning special effects. They all cluster together in the Soho area of London's West End, the Mecca of the video and film editing business.

What VTR lacks in size it is trying to make up for in quality. Mr Bob Parsons and Mr Phil Stone, the technical directors, both used to work for Mollinair. Mr Stone, the principal video editor, is reckoned to be among the top half dozen editors in Europe.

Its smartly decorated offices above a street inhabited by film people and advertising executives by night, houses almost £2m worth of the most modern video editing equipment. Not the most expensive, believes Mr John Banks, accountant, business consultant and now Mr Dann's partner, but the best.

The technique suite, where filmed sequences for commercials and pop promotion videos

are transferred to videotape, is equipped with a Rank Cintel Mark 111C Digiscan. Here the images are "graded": colour is adjusted to give the best hues, the atmosphere can be altered, the density improved and the sound added. This process alone can give startling results. A simple sequence shot at mid-day showing, say, the Houses of Parliament and the River Thames in London can be graded so it can appear to have been taken at any time from early morning to the middle of the night.

Video editors prefer to work from film in the first instance; chemical emulsion captures more information than today's magnetic videotape, giving a richer more detailed image that responds well to electronic manipulation.

The editing suite at VTR has been customised by Ampex, a U.S. company which invented the videotape recorder and has been successfully resisting Japanese incursions into its territory ever since.

The suite is equipped with five Ampex VPR 3 videotape machines, claimed to be the most advanced in the world. Unsolicited testimonials from technicians are rare but Mr Arthur Johnson of VTR believes he can squeeze more performance out of the VPR 3s than the manufacturer's specifications. The secret of these machines is the speed with which they move several pounds of videotape across the recording heads—up to 500 inches a second.

The bonus for the technician is a new ease and speed of tape editing. The problem for Ampex was finding a safe mechanism to guide the tape and protect it during processing.

The answer, says Mr Joe Williamson, marketing manager for Ampex International,



Image makers: Mr Steve Dann (left) and Mr John Banks, joint managing directors of VTR, at the control console of their Ampex video editing equipment

was vacuum capstans and air lubrication.

The machines run, in fact, on air. The tape is held to the transport capstans by a vacuum rather than the conventional pinch rollers while compressed air lubricates the tape and holds it in place during its tortuous path through the transport mechanism.

A small machine will set an editing studio back \$65,000; a large one \$100,000.

The suite is also kitted out with a Grass Valley 300 mixer, a Chyron caption generator and, most significant, an Ampex ADO machine for special effects.

The ADO (it stands for Ampex Digital Optics) is now essential equipment for any company in the special effects business. "ADOing" a

sequence has become standard jargon for the effects which are now becoming commonplace on television. Whole scenes complete with people moving and talking, for example, can be made to look as though they are tumbling into space, or a scene can be made to fragment into several parts, each of which behaves as an independent entity.

The secret of the ADO is massive memory which can recall the relationship between every picture element (pixels) in every scene and a powerful set of equations which enables the machine to calculate where to place each pixel in response to the operator's commands.

Ampex was not the first company to develop such a machine and it has strong competition from the Japanese and in the

UK from Quantel, but Mr Williamson believes it is easy to use and remarkably complete.

VTR, meanwhile, is making the most of what Ampex already has to offer. Its clients include North Eastern Gas (simply to turn the image of a price ticket around against a moving background can involve the ADO in lengthy calculations), BUPA and Midas Silencers.

Technically, its prize exhibit is a commercial for a company marketing all-in-one nappies. The nappy bounces around and talks to the baby complete with realistic shadows all added electronically.

"Creating an illusion which viewers believe in, even if they know it is simply an electronic special effect, is the real challenge," Mr Dann says.

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## Easy path to word processing

Easy is the name of a new word processing package from MicroPro International aimed specially at people who know nothing about using computers but want to learn word processing quickly.

The package, which makes its first appearance at the Computer Exhibition on now at London's Olympia, has been designed so the users need learn only three functions key to be able to use all the software's facilities.

It features pop-up menus, context specific help, and prompts, and is available on the IBM PC and compatible. It joins a range of packages which include the widely used WordStar: Easy will sell at \$165.

More from MicroPro on 01-879 1122.

## Nursing aid on computer

ICL says nurses at Northampton District General Hospital have reacted enthusiastically to a recently introduced computerised nursing procedure system which holds information on basic surgical and medical procedures.

Staff tap the information through the ICL Distributed Resource System terminals installed in wards, via the company's Bulletin videotex system and its One Per Desk voice/data workstation.

## Scant attention paid to customer

"I THINK what tends to happen — I think it happens in all businesses including our own — is that what you tend to do is think 'well, we can do this, let's get a product out'."

This answer was given by a supplier of automated banking equipment to BJM Research Partners, a marketing consultancy investigating just how far the design of self-service bank equipment takes account of what customers like and it seemed to sum up the entire survey, albeit tongue-in-cheek. "Such elegant technical solutions appear to be readily accepted by system personnel in financial institutions

(particularly the banks)." The BJM study was essentially small-scale, covering interviews with 12 individuals in four banks, two building societies and four equipment suppliers, and four decision makers and their answers were broadly consistent across the sample.

It correctly identified the fact that the drive for new self-service equipment is still coming from technical personnel inside the banks and their suppliers, although the importance of financial and marketing considerations is rapidly growing.

Only three of the buyers of self-service equipment inter-

viewed for the study said they conducted research among potential users prior to introducing new machines, although they experience very real benefits from doing so, according to BJM.

Suppliers left all customer-related issues to the banks. "The services those machines actually provide are financial services. Now we are not financiers, so the services as far as the customer is concerned are very much the banks' prerogative."

Customer-operated Financial Technology Equipment, BJM Research Partners, 1985. 01-388 3191.

# Sun Life: lighting the way with new ideas

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## GENERALI

### CONSOLIDATED BALANCE SHEET 1984



The General Council of Assicurazioni Generali, presided over by Mr. Enrico Randone, Chairman of the Company, met to approve the Group Balance Sheet for the financial year 1984, as follows:

	1984	1983
<b>ASSETS</b> (in thousands of U.S. \$) (*)		
Building and farm property	1,760,705	1,592,177
Fixed interest bearing securities	4,215,960	3,587,731
Shares (including Associates)	529,615	457,830
Mortgage and policy loans	408,764	354,679
Deposits with Ceding Companies	269,130	216,509
Bank deposits	385,212	301,335
Accounts receivable and other assets	1,088,356	931,322
	<b>8,657,742</b>	<b>7,441,583</b>
<b>LIABILITIES</b> (in thousands of U.S. \$) (*)		
Shareholders' surplus	944,775	824,076
Provisions for insurance liabilities	6,601,153	5,664,752
Reinsurance deposits	120,731	139,115
Other liabilities	877,394	742,487
Profit of the year	113,689	71,203
	<b>8,657,742</b>	<b>7,441,583</b>

(\*) The Italian Lire figures of both 1984 and 1983 have been translated into US Dollars at the exchange rate of Dec. 31, 1984.

- This Balance Sheet consolidates 45 insurance companies operating in some forty markets, (including 6 Europ Assistance companies), 16 financial, 18 property and 3 agricultural companies where Generali directly or indirectly holds more than 50% of the shares.
- The year shows a profit of U.S. \$ 113.7 million (+59.7%).
- Gross premiums amount to U.S. \$ 3,132.1 million (+16.3%) distributed as follows:
 

	U.S. %	Non-U.S. %	Total %
Italy	10.1	20.9	31.0
Other EEC Countries	13.0	27.7	40.7
Rest of Europe	4.2	18.0	22.2
Rest of the world	0.7	5.4	6.1
	<b>28.0</b>	<b>72.0</b>	<b>100.0</b>
- The provisions for insurance liabilities amount to U.S. \$ 6,601.2 million (+16.3%).
- Investments total U.S. \$ 7,569.4 million (+16.3%) and are distributed as follows:
 

	Life %	Non-Life %	Total %
Italy	22.2	11.0	33.2
Other EEC Countries	29.0	14.3	43.3
Rest of Europe	9.9	9.1	19.0
Rest of the world	0.7	2.3	3.0
	<b>62.8</b>	<b>37.2</b>	<b>100.0</b>
- Investment income amounts to U.S. \$ 707.3 million (+18.8%) and is split by 63.5% to fixed interest, by 16.4% to property, by 3.9% to shares, by 6.1% to bank deposits and by 8.1% to other investments.
- The shareholders' surplus amounts to U.S. \$ 944.8 million and 88.6% belongs to the Controlling Company, the minority interest being 11.4%.

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## OVERSEAS NEWS

## Sounding out the U.S. with an angel's horn

A WRY SENSE of humour shows itself as Herr Curt Engelhorn lifts aside some of the veil from the worldwide activities built around Boehringer Mannheim, the family owned West German pharmaceutical business.

From time to time, he says, he is asked how many people work for him, but he often side-steps an exact answer by replying: "I hope about half of them."

A grin appears, too, as he dispels the mystery surrounding the origin of the company name Corange, which is cropping up increasingly in the group's affairs. If you look at this name closely, he says, you realise it is the French translation of his family name (meaning angel's horn), a brainwave he credits to one of his senior executives.

Herr Engelhorn, who is 56, even displays good humour as he lifts a copy of a local newspaper with a banner headline implying that Boehringer is quitting the proud commercial

Sales in the U.S. last year amounted to \$235m, which is between 20 and 25 per cent of the consolidated worldwide sales of Boehringer Mannheim and its associated companies, totalling about DM 2,750m (\$1,040m).

West Germany is still the group's most important single market, but Herr Engelhorn believes the U.S. will become by far its biggest market in a few years.

At present Boehringer Mannheim's U.S. activities are basically in diagnostic materials and orthopaedic equipment. But Herr Engelhorn says it has "concrete" plans to enter the pharmaceutical market there by 1990.

Boehringer Mannheim is one of the many family owned West German businesses which present a dazzling complexity to the outsider — and often to their own employees — once the veil is lifted just a little.

One possible confusion arises because Boehringer Mannheim has no connection with another, larger pharmaceutical company called Boehringer Ingelheim.

What's more, there have been no Boehringers associated with Boehringer Mannheim since the Engelhorn family bought them out more than 90 years ago.

Boehringer Mannheim takes fifth place in the West German pharmaceutical market, behind Hoechst, Bayer, Boehringer Ingelheim and the Swiss-based Ciba-Geigy.

It puts strong emphasis on research, including activities in biotechnology. One of its best-known products is Euglucon — for diabetes — developed with Hoechst. Unfortunately for both companies, however, the patent rights ran out in 1983 and they were obliged to cut the price drastically as other similar products came onto the market.

There are about 20 family shareholders in Boehringer Mannheim, mostly living in West Germany though with international ties. Until now they have had an elaborate criss-cross matrix of holdings in



Curt Engelhorn displays good humour

various companies in the group.

As a step towards streamlining a holding company called Corange AG was set up in Switzerland several years ago, the structure has become clearer, still with the shareholdings more tightly concentrated into Corange Limited, the holding company.

Herr Engelhorn sees no "dramatic" tax advantages from the decision and says that Boehringer Mannheim will continue to be a useful source of revenue for the tax authorities in both Bonn and Mannheim.

Until now, Herr Engelhorn has been chief executive of the Mannheim-based core company in the group, but with the restructuring, he has handed this job to Dr Karl Malwald. One of the positions Herr Engelhorn holds now is that of chief executive of the Bermuda umbrella company.

Worldwide, Herr Engelhorn says, the group has about 12,000 people working for it, though he adds, that this figure does not include those in Zaire.

Herr Engelhorn sees the Bermuda step as opening up a "new chapter" in the history of Boehringer Mannheim, which traces its origins back more than 125 years.

In order to avoid confusion with Boehringer Ingelheim, the name Corange may also come a little more to the fore, he says. One way or another, it looks like the angel's horn will be trumpeting a little louder in the U.S. in future.

## Frank Kane reports on a foreign takeover bid for a Japanese group Raid on Minebea breaks with convention

"I SHOULD point out that, while it is our preference to acquire control of Minebea through negotiations and with board support, we are quite determined to acquire control, and to this end we are prepared to proceed with a formal takeover bid if necessary."

Restrained to the point of blandness, this was how Mr Charles Knapp concluded the offer document which last Friday made corporate history as the first attempt by a foreigner to acquire a Japanese company.

The offer, valued at \$1.4bn by Mr Knapp, is unusual in just about every conceivable way. Hostile takeovers are unheard of in Japan, even between indigenous companies. The Japanese word for acquisition also means "bribery," and the word for takeover doubles for "hi-jack."

The target, Minebea, is Japan's largest manufacturer of precision ball bearings, but has a reputation as something of an odd-ball within the country. It is regarded as one of the most Westernised of companies, is not part of one of the existing corporate groupings and is believed to lack the institutional support so effective in protecting Japanese companies from overseas takeovers.

If the target caused some oriental eyebrows to be raised, the bidders' names brought one universal response—who?

The offer document was issued by the partnership comprised of Trafalgar Holdings, a Los Angeles based finance and investment company, and Glen International, a financial services group with offices in London. Both are the creation of aggressive businessmen who have in the past had their fair share of controversy.

Mr Charles Knapp, the 51-year-old head of Trafalgar, is best known as former head of Financial Corporation of America, the large U.S. savings

and loan which came close to collapse last year. Mr Knapp was forced to resign his control of the company by the U.S. regulatory authorities.

His new financial empire was created around Trafalgar Holdings and stayed within the same business sphere — real estate, securities, leveraged buy-outs and the like. Mr Knapp has a reputation for a buccannery style and a willingness to take risks.

Mr Terry Ramsden of Glen International met him a couple of years ago through mutual friends, and immediately recognised a soulmate. Mr Ramsden, by his own account, has devoted 10 of his 33 years to an in-depth analysis of the Japanese corporate sector, and he is supremely self-confident about his acumen in the field.

He used to work for Hedderwick Sterling Grumbar, the London stockbroker that went out of business several years ago.

The two men have put together an offer of some complexity, which their critics say is an attempt to hood-wink shareholders but which they regard as evidence of their careful preparation.

Their attack concentrates on Minebea's track record of going for growth via the purchase of other companies, which has been mainly financed by the issue of shares with convertible warrants. This, incidentally, is how the Trafalgar-Glen stake was built up. Mr Ramsden saw the warrants' potential and acquired them in the market at a knock-down price, amassing a 23 per cent holding which he then passed on to Mr Knapp for an undisclosed sum.

The partnership says that for Minebea to have built up such a large amount of foreign debt was irresponsible and brought about a dangerously high gearing ratio. They also consider that recent acquisitions



Mr Terry Ramsden (left) and Mr Charles Knapp: have put together a complex offer

have cut Minebea's profit margin, and that they could do better.

Exactly how they intend to do this has not really been explained, apart from a reference in the offer document to the opportunities that Minebea's "merger" with Trafalgar-Glen would bring. These consist of "attractive investment and business opportunities," and the restructuring of the company to pursue these options, with the help of "several experienced Japanese businessmen."

So far, it is not a takeover strategy which has met with any success in Japan. Opinion there has been universally hostile and often dismissive of what the Japanese see as an unwelcome incursion into their internal corporate affairs.

The two partners have been called "children" by Mr Takami Takahashi, the Minebea president, who has made no secret of his contempt for the bid.

Ramsden and Knapp are "amateurs," in his opinion, who have stumbled into Japan with the naive impression that there are easy pickings to be had there.

Market opinion in Japan, while less emotional than Mr Takahashi, is united in its opinion that the bid will not succeed. Even if the pair could overcome the large — some say more than 50 per cent — holding that is understood to be loyal to the present management, and even if shareholders could be persuaded to exchange their shares for a mix of cash, convertible debentures and zero

coupon bonds, they would still have to face the Japanese Ministry of Finance.

This will be the real test for the offer. The official attitude is that foreign companies are not, at present, wanted in Japan, despite recent trends to liberalise commercial practices. It is also this attitude — an air of enlightened selfishness — that most infuriates the bidders.

If the bid does come to the ignominious end that most are predicting, it will at least have forced the Japanese to re-appraise their attitude to foreigners, and may hasten the liberalisation of corporate affairs.

And Trafalgar-Glen will have the consolation of being able to sell their large stake at a substantial profit.

### John Davies describes how Boehringer Mannheim is streamlining itself for expansion

and industrial city of Mannheim, near Heidelberg, for the sunny tax haven of Bermuda. Not true, he says.

What has just happened is that Herr Engelhorn and other family owners of the long-established group have brought various shareholdings together into a newly formed company called Corange Limited, based in Bermuda.

This will bring more clarity into the group's world-wide affairs, Herr Engelhorn says, and so will help prepare the ground for an ambitious drive to expand in the U.S. market. It will be easier, he suggests, to raise funds to finance acquisitions.

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For further information contact Barry Murrell for Australia, Hong Kong, Singapore and Malaysian securities or Martin West for South African stocks.

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## THE MANAGEMENT PAGE

IAN HOWIE, chairman of Merrydown, Britain's fourth largest cider maker, is a contrary man.

Still active in the company in which he was co-founder despite being well past 65, Howie gleefully tells how in 1946 when he started to sell cider he priced it at 4s 3d (21p) a 75 cl bottle whereas Bulmer, the major competitor sold its draught product at 1s 10d (9p) a quart.

The product sold well. "People thought at that price it must be good," says Howie. Asked if the pricing policy was the product of some major marketing strategy he quips: "The potential of the product was totally unknown and we wanted to get some of our investment back quickly."

Similarly in 1956 when the then Chancellor of the Exchequer slapped a duty on cider at 15 per cent proof Howie made his cider stronger, whereas Showering, the Somerset maker of Babydam at which the duty was aimed, reduced its strength. "We decided that if we diluted the product we would simply be a tiddler among the big boys and there would be no premium for quality," he explains.

This approach was one of the factors behind the emergence of Sussex-based Merrydown as a producer of premium-priced bottled ciders and associated products such as the more esoteric Elderflower Wine. With pre-tax profits topping £1.2m in the year to March 31 1985 (up from £957,000 the year before) and around 3 per cent of the UK cider market in its grasp the business still has a family-run atmosphere, with investors—it went public on the Unlisted Securities Market in 1981—perceived more as the extended family than anonymous providers of cash.

There is also still a feeling within the company that, after many lean years, it cannot believe the success of the past five or six. The still slim management team is acutely aware that it needs to deepen its expertise and widen the product range; one possibility is health products. The company already manufactures a small range based on its cider vinegar.

Merrydown was set up after the Second World War by Ian Howie and his friend the late Jack Ward, now the company's president. Both were amateur wine makers and took their basic recipes from Peggy Hutchinson's "Home Made Wine Secrets". Sales developed slowly but took off in the early 1950s with profits growing to £116,000 in 1955-56.

However, Howie's brave attempt to carve a special niche in the top end of the market was undermined by the Govern-



Ian Howie: needing to branch out further

Glyn Gwin

## Why Merrydown remains wary

Lisa Wood on the UK cider maker's outlook

ment's duty increase in 1956; turnover dropped by two thirds and profits disappeared. Then followed 20 years of what Howie calls "the years of struggle." There was minimal profitability and the company abandoned the cider market and replaced its major product, Vintage Cider, with apple wine. A host of new products and services was also introduced including mead, cider vinegar and contract bottling.

It was Dennis Healey's first 1975 Budget that transformed the company's future. He increased British wine duty by 103 per cent. In the face of what it saw as an inevitable decline in its apple wine sales Merrydown decided to re-enter the cider market, and introduced a product of less than 8 per cent proof at the premium end of the bottled market. It sold it to five pubs on June 1, 1975.

The re-introduction of vintage cider coincided with a boom in the popularity of cider generally and sales soared. Annual volume growth of the company reached 20 per cent in the early 1980s.

However, the expansion strained the company's finances. So in 1976, using powers earlier secured by its board, it issued a sizeable number of shares, a major portion of which was

taken up by ICFC and the Trustee Corporation. This started a somewhat long drawn-out approach to the market culminating in its joining the USM in 1981.

In 1982 Merrydown's stock was the best performer on the USM, with a 910 per cent increase. This resulted largely from a stock market reassessment of its share price against a background of cider becoming fashionable, a good apple harvest and the company achieving a huge leap in profits.

Since then, Merrydown, which has determinedly kept out of the intensely competitive keg and own-label markets, has gone from strength to strength, despite intense competition from imported Normandy bottled ciders. Money raised by a heavily discounted rights issue in 1983 has been ploughed back into new machinery and equipment leading to an improvement in profit margins.

"We are currently in the ferment of knowing we must grow another leg of the business," says Howie. Cider, including the company's bottled Vintage and new Country brands, accounts for the bulk of sales and the industry has been hit in the past two years by further increased duty on the product.

"I am apprehensive about

making an acquisition," says Howie. "We have digested a substantial period of expansion in the past five years and that puts a strain on management. The difficulty is finding the right business."

Merrydown, however, does have an existing arm to its main cider business which the board admits has not been fully exploited. In the mid-1960s Howie read an American doctor's book on Folk Remedies in which cider vinegar in a mix with honey, called Honegar, was extolled as being the ultimate cure-all.

He secured the rights to market the product and today sales of the book and the special cider vinegar and honey mix are small but steady, particularly in Scandinavia. Howie, who admits to taking a teaspoonful of the mix in a glass of water every morning, says: "We neglected exploiting this market because since 1975 we have had to concentrate on the cider."

Similarly the company has for some time manufactured vinegars for Sharwoods, the specialist food group, and a range of its own culinary vinegars with products containing garlic and herbs which fall into the added value sector of the market. "Some 40 per cent of our vinegar sales are in Scandinavia," says Howie, "and I believe we should have doubled our UK turnover."

His son Robert has recently taken on a new marketing job in the business with sectors such as the health market very firmly on his target list. Sales in the past, he says, were disappointing mainly because of poor distribution but the company is now forging direct links with supermarkets and health food shops under the Martlet label.

Health-related products fascinate Howie, who currently has a 3855 ft<sup>2</sup> home about the potential for a carrot-based product. His investigations have unearthed a wealth of claims about the vegetable. "We are only just scratching the market," says Howie.

Merrydown is also UK agent for Mariacron Brandy and Chante Brandy Cream Liqueur, both brand leaders in their respective West German markets. In addition in 1984 Merrydown became sole UK agent for the Beauvray range of Vins de Table.

This importing business is another which the company is currently seeking to grow. In addition it has started to import its own Calvados from France, a growing sector of the spirits market directly related to cider.

"Getting the finances right" has been a major constraint, says Howie. "But now these are resolved we can really progress."

### Training

## The video route to 'excellence'

BY CHRISTOPHER LORENZ

MOST companies frown on employees who break the rules. But 3M positively encourages its research and development staff to spend 15 per cent of their time on non-authorised projects.

The Minnesota mammoth, best-known for its "Scotch" range of tape and other products, has built a widely diversified \$17bn-plus business on what can only be called institutionalised lawlessness. Its chairman and chief executive, Lewis Lehr, is a self-confessed rule-breaker, or "bootlegger," as 3M prefers to call it. So are many of his senior colleagues.

Yet this freedom is combined with iron discipline. When a project reaches a serious stage, such as needing investment in a pilot plant, it is subjected to the most intense scrutiny. Only if it passes a set of rigorous market, competitive and financial tests does it get the go-ahead. If it fails, it is seldom allowed to drag on for long, as in many companies. Instead, it is shut down.

This seemingly ambiguous combination of laxity with tight control produces a flood of innovations every year—and distinguishes 3M from most other large corporations. Many have tried to match it, but have failed; the right balance is remarkably difficult to achieve, let alone sustain. Only a handful have succeeded, notably Hewlett-Packard (usually) and IBM (sometimes).

3M's elusive balance of looseness and tightness can now be viewed at first hand in a training film based on the bestselling book "In Search of Excellence." The film features the book's two authors, Tom Peters and Bob Waterman, but its stars are seven of their "excellent companies": Disney, McDonald's, Apple, Dana Corporation, 3M, a remarkable Connecticut supermarket, and a small Californian engineering company.

The film's behind-the-scenes look at these companies brings vividly to life all eight "attributes of excellence" which the book identified, including "close to the customer," "productivity through people," "a bias for action," "autonomy and entrepreneurship," and the "simultaneous loose-tight controls" at which 3M so manifestly excels.

3M's winning formula is illustrated in the film by two projects. The story of the development of "Post-it"



Disney World—"obsessive attention paid to quality and service"

adhesive notepaper, a classic 3M innovation whose sales have soared to over \$200m a year, is told in person by Art Fry and Spen Silver, who developed it against strong opposition from the marketing department. And the camera is allowed into a real (not simulated) top executive meeting at which Lewis Lehr and his cohorts subject the champion of a new laser disc project to a ruthless grilling before granting him the \$30m of investment he needs to get into mass production.

Presenting the film in Brussels earlier this month at a conference organised by Management Centre Europe, Bob Waterman argued that large American companies were ahead of their European counterparts in practising "autonomy and entrepreneurship" and "tight-loose controls."

On other counts, however, such as "close to the customer," the Europeans had just as much to offer.

The ability to practise autonomy and entrepreneurship "boiled down to one's attitude to making mistakes," Waterman suggested. "One of the characteristics of Silicon Valley is that it sees it as a badge of distinction to go bankrupt. Venture capitalists look for people who have failed at some stage because it demonstrates their experience at dealing with a situation where the odds are against them."

Within the confines of a large corporation, both 3M and Hewlett-Packard were practi-

advice. The Leonard family reacts, and prospers.

The film shows a classic example of Leonard's technique: the doubling of his store's fish sales by the simple device of adding a fish counter offering personal service, yet selling exactly the same fresh fish as the packaged counter across the aisle. The idea originated when a customer complained that the packaged fish just didn't look fresh.

For companies in any sort of business, the lesson of Stew Leonard's success is that "customer perception is reality," Waterman told the MCE conference. "Too many companies, especially in engineering, think they know better than the customer." At excellent companies such as IBM, by contrast, "everyone is tied into marketing."

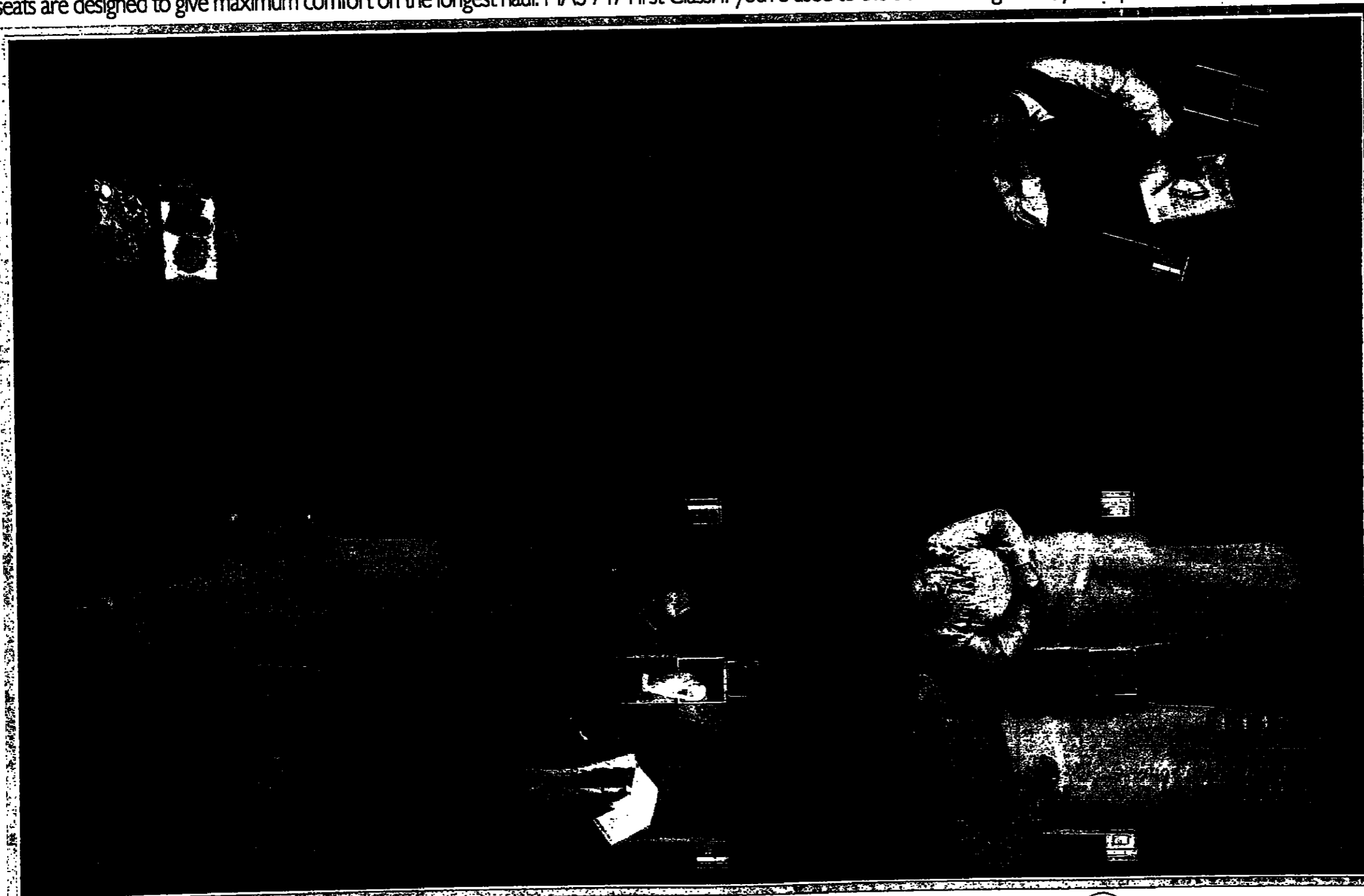
Commenting on the episode which opens the film—the obsessive attention which is paid to quality and customer service at Disney World—Waterman said the same approach was used at excellent companies in entirely different fields. IBM had always set itself the target of being "the best service company in the world," while Frito-Lay (a subsidiary of Pepsi Cola which makes potato crisps and pretzels), calls on all its customers once a day—even "mom & pop" stores. Its overheads are high, but its sales and market shares are a stratosphere.

Waterman accepts criticism in Europe that his book over-emphasised some of what he calls the "hoopla" of employee motivation and customer service in American companies. The important thing, he emphasises, are the principles that lie behind the hoop-la.

Significantly one of the most telling sequences in the U.S. version of the film has been judged unsuitable for consumption in Europe. Tom Mehlton, the owner of an engineering jobbing shop in Oakland, California, is shown in his characteristically revivalist style conducting what he calls a "super-person" ceremony to reward employees for improving quality and productivity. But an interview where he cries with emotion at his commitment to his workforce has been cut.

"Available on video or film for rental or purchase, with accompanying user's guide, from Melrose Film Productions, 8-12 Old Queen Street, London SW1R 9EP. Tel 01-223 1744. Telex 917944.

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## UK NEWS

Ian Rodger assesses the impact of the tin crisis

## Dented image in the can market

THE COLLAPSE of the tin market last week may be bad news to producers and exposed traders, but the prospect of significantly lower tin prices will be welcomed warmly by the main consumers of the metal.

They have watched with frustration in recent years as the producers' support for tin prices has made it more difficult for them to sell their tin-based products. Tin consumption in the non-communist world has fallen from 174,000 tonnes in 1970 to 153,000 tonnes last year.

The largest tin consumer by far is the steel industry, which uses the metal as a coating for sheet which is then formed into food and beverage tins and other containers for consumer products. In 1984, tinplate accounted for 35 per cent of tin consumption.

Tinplate has been fighting a losing battle against other materials in the packaging market in recent years. The most striking example is that of beverage cans in the U.S. In 1972, 80 per cent of beverage cans in the U.S. were made of tinplate. Today, almost all beer cans and 87 per cent of soft drink cans are made of aluminium. In that period, U.S. consumption of tinplate fell from 4.5m tonnes to under 3m tonnes.

Members of the International Tin Council, the industry's producer-consumer price pact, are expected to spend today preparing the ground for an emergency meeting on the tin crisis. There are signs that they have taken some small steps towards finding extra funds needed to bolster their efforts to maintain tin prices above free market levels.

It would be wrong to suggest that this reversal has been due entirely to the relatively high price of tin.

The increasing pressure for recycling has favoured aluminium, as did the development of this wall can technology. When a thin tinplate was developed to compete with aluminium can sheet, it used significantly less tin.

Tin consumption in tinplate has fallen by about 15 per cent in the past five years, according to a study by the London Metals Research Unit of Shearson Lehman Brothers. The importance of price emerges in the experience in Western Europe where tinplate has been much more successful so far at holding off aluminium's advance in the beverage can market. About 90 per cent of beverage cans in West Germany

and 50 per cent of them in Britain are still made of tinplate.

Aluminium producers grumble that this is because European steel prices have been unrealistically weak, thanks to government subsidies. These subsidies will no longer be allowed after this year, so tinplate producers will be grateful for any reduction in tin prices that might offset any upward trend in their steel prices.

The British Steel Corporation, for example, uses 4,000 tonnes of tin a year in its three tinplate works in Wales where it makes a total of about 935,000 tonnes of tinplate a year. BSC officials suspect that when trading in tin resumes, the price will be somewhere in the vicinity of £7,000 a tonne, compared with the £2,140 three month price at which trading was suspended on the London Metal Exchange (LME)

last Thursday. This would mean a direct saving to BSC of about £5 per tonne of tinplate made.

The other main use of tin is in solders, which are used in a wide range of industrial applications in electronics, packaging and automobile manufacturing. Unlike tinplate, solder is a growth market for tin, particularly in Japan which has a strong electronics industry. Solders now account for about 30 per cent of world consumption of tin, excluding the Communist countries.

The British company Cookson (formerly Lead Industries) is a world leader in solders, and a significant maker of other alloys and compounds using tin, such as pewter and paint additives. The company uses about 10,000 tonnes a year of tin, and operates its own secondary smelter.

Mr Fergus Munro, Cookson's finance director, said margins on the output of the group's secondary smelter would be harmed by the anticipated decline in the price of tin, but this would be more than offset by the increased demand and margins it expected on its tin products.

Mr Munro said that Cookson, like other large consumers, maintained significant stocks of tin.

## Upheaval threatens Cornish mines

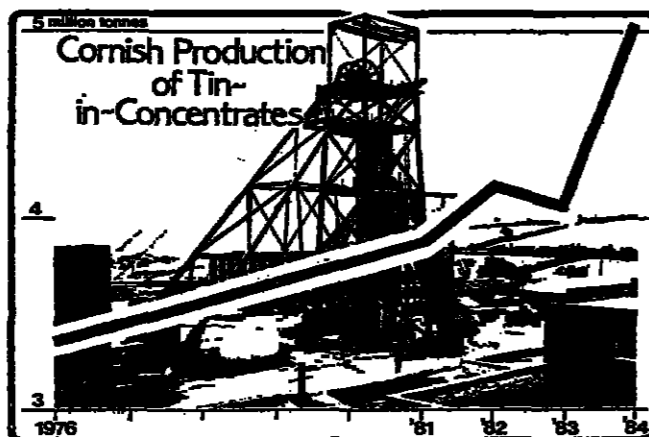
THE FUTURE of the Cornish tin mining industry has been put at risk by the crisis in the international tin market, Stefan Wagstyl writes.

The threat of a collapse in world tin prices has put into jeopardy a steady recovery in mine production in the 1980s, in which the natural resources group Rio Tinto-Zinc has played a crucial role.

There is no danger of immediate closure at any of the three largest tin mines in Cornwall, or of imminent redundancies among the 1,500 people employed in the industry. The threat rather is that a long period of weak tin prices would once again plunge the industry into declining investment, falling output and rising unemployment which has characterised it for much of this century.

Mr Brian Calver, managing director of RTZ's tin mines, said: "If the price falls dramatically still further it could cause me considerable alarm. It would be disastrous for the Cornish industry."

Mr Ken Gilbert, managing director of Geevor Tin Mines, the only



remaining independent Cornish mining company (in which RTZ has a 16.4 per cent stake), said that while the industry could survive a short-lived upheaval in the market a sustained fall in prices would be "disastrous."

The current resurgence in the Cornish mining tin industry dates back to 1979 when RTZ bought the shut-down Wheal Jane mine from

Consolidated Goldfields and re-opened it a year later. It has since re-opened Wheal Maid, Wheal Jane's much smaller sister and is now refurbishing the South Crofty mine, near Redruth, where it bought control last year. RTZ's investments in Cornish tin mining have totalled some £25m. Geevor has been spending over £1m a year modernising its mine near St Just.

These investments have helped to raise Cornish tin production from some 3,500 tonnes of metal in concentrates in 1976 to over 5,000 tonnes last year.

The trouble is that this expansion has been carried out while the International Tin Council has been supporting prices at above the free market level. Moreover, in the last two years, the weakness of sterling has helped the Cornish mines against rivals in South East Asia and elsewhere.

There is every chance now that the tin price, which was suspended at £2,140 a tonne on the London Metal Exchange on Thursday, could fall far below the breakeven levels of the Cornish mines. With a breakeven point of about £8,500 a tonne, Geevor is already being squeezed, according to the company's own figures. RTZ, with a mine breakeven point of between £7,500 and £8,000 a tonne, has a little more breathing space. But even that will be little consolation if prices now fall by the £2,000 a tonne that metal traders believe is possible.



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## MANNESMANN

Water for Riyadh

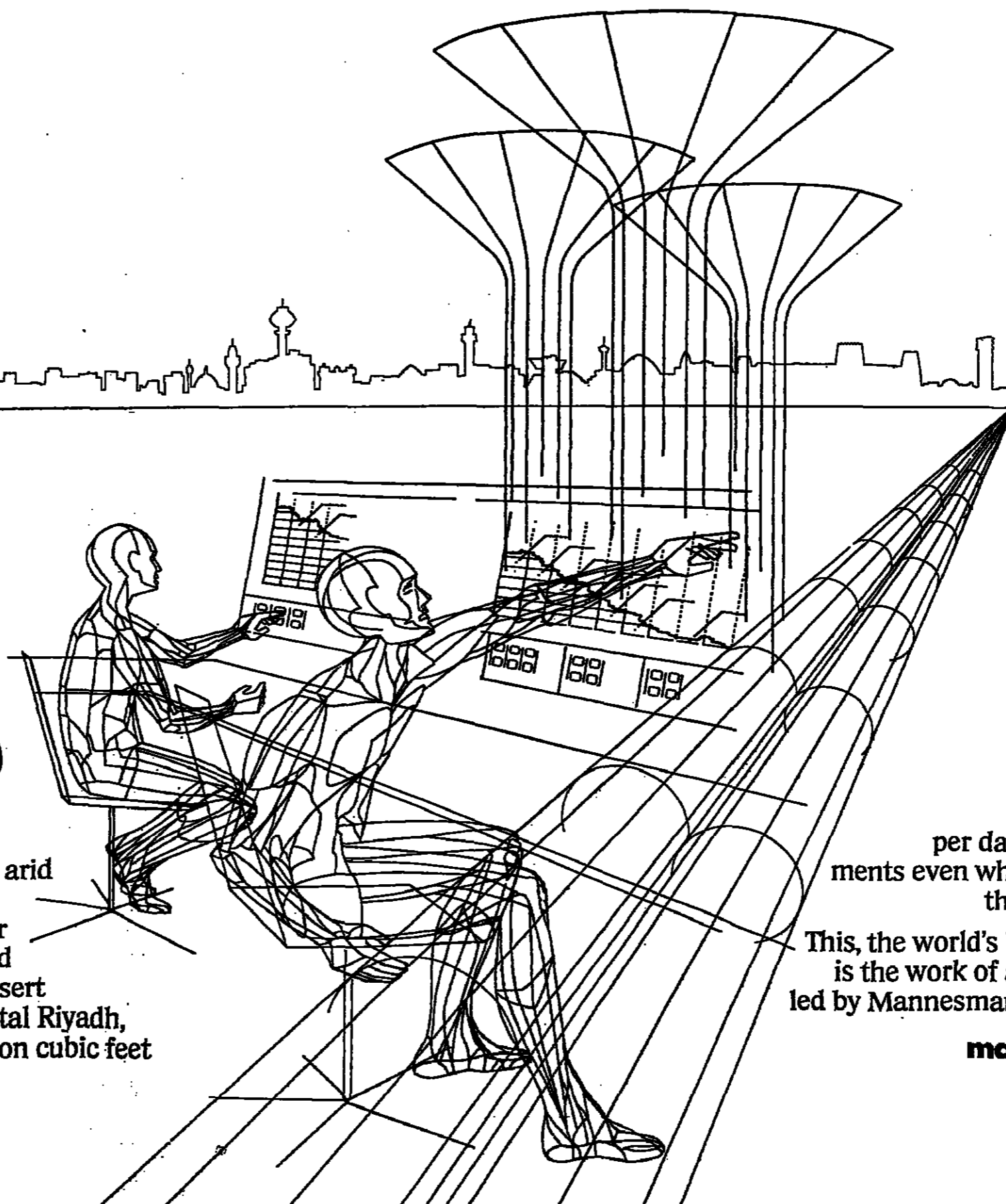
## Aqueduct 2000

Tapping the oceans to provide an inexhaustible source of water for the arid regions of the Earth is not the fanciful idea it sounds. In Saudi Arabia sea-water from the Gulf is desalinated, purified and sent on a 290-mile journey across the desert through a huge twin pipeline to the capital Riyadh, 2,300 feet above sea level. Up to 30 million cubic feet

per day - enough to meet requirements even when Riyadh's population tops the million mark in the 1990s.

This, the world's largest water supply system, is the work of an international consortium led by Mannesmann Anlagenbau.

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## UK NEWS

# Minister forced to defer social security reform

By Robin Pauley and Eric Short

THE WORSENING crisis over the future of Britain's £40bn social security budget, exacerbated by controversial demands from the Treasury for a freeze in child benefit until 1988, has forced Mr Norman Fowler, Social Security Secretary, to postpone publication of a White Paper (policy document) detailing reform.

The extent of the Government's problems became clear in weekend interviews by both Mr Fowler and Mr Tony Newton, Social Security Minister. Yesterday afternoon thousands of protesters in London marched in a Trades Union Congress (TUC) rally against the proposed changes which were described by Mr Norman Willis, TUC general secretary, as "a charade" whose primary purpose was cuts.

The White Paper was due to be published soon after November 8, but this plan has been abandoned and Mr Fowler, speaking in a BBC radio interview, would say only that it was "a fairly safe bet" to say the announcement would be made before Christmas.

One cause of delay is the difficulties Mr Fowler is facing in the so-called Star Chamber of ministers

which is examining bids for extra public spending in 1986-87 and beyond. He is seeking extra resources for the National Health Service, extra funds for social security to pay for the higher than predicted number of unemployed and a withdrawal of Treasury demands for £500m savings in the housing benefit which have infuriated backbench Tory MPs.

Mr Fowler appears to have secured at least a partial victory over housing benefit, but the price may have to be a cut in the child benefit budget. He is resisting strongly demands for a freeze, but indications of defeat surfaced for the first time when Mr Newton said yesterday that while child benefit was secure as a universal benefit, the Government had to try to balance the amount which went to all mothers against the amount which should be allocated to low income families through a proposed new family credit.

Child benefit goes up to £7 a week per child next month, a rise of 2.12 per cent instead of the 7 per cent rise to £7.30 which would have been required to update the benefit in line with other benefits and in

line with inflation.

Of the £175m saved by not fully uprating the benefit only £25m is being channelled to improve family income supplement and housing benefit for families with children. The rest is a gain to the Exchequer towards tax cuts.

A little noticed part of the current public expenditure White Paper shows the Government was anyway planning to increase child benefit by less than its projected rises in inflation in each of the years to 1988. But freezing it at £7 would deliver further savings, over and above those planned, of between £1bn and £1.5bn between now and 1988.

One of the most controversial aspects of the social security reforms proposed by Mr Fowler's Green Paper (discussion document) in June was the phased abolition of the state earnings related pension scheme (Serps) which attracted hostile responses from employers, trade unions and the pensions industry.

Mr Fowler now says, however, that he has not made up his mind yet on whether to go ahead with the abolition of Serps or to proceed with a modification of the scheme.

## Unions press for inner city aid

By John Lloyd and David Thomas

THE GOVERNMENT and industry will come under strong pressure at next week's meeting of the National Economic Development Council, a tripartite grouping of trade unions, employers and the Government, to provide more assistance to inner cities and areas of severe industrial decline.

A paper from the Trades Union Congress, which has been discussed informally at talks between TUC of

ficials and the Confederation of British Industry, Britain's employers' organisation, makes a strong plea for a greater commitment by business to inner cities.

The NEDC discussion, though technically concerned with local economic initiatives, is likely to centre on the problems of the inner cities in the wake of recent riots in Birmingham and London.

The TUC paper, unusual for the

trade unions, argues that the inner city problem is too big to be solved by Government alone and that much of the responsibility must fall on business.

The TUC says that, on one estimate, as little as 0.1 per cent of pre-tax profits are spent on urban renewal. Spending by business in the U.S. on urban development is many times higher.

## Pit union's left urges Scargill to moderate

By John Lloyd, Industrial Editor

MR ARTHUR SCARGILL, president of the National Union of Mineworkers (NUM), will today come under the strongest pressure he has experienced since the end of the coal strike in March to moderate his policies and style - from members of the dominant left group in the NUM executive.

He can expect a challenge in two forums - the NUM's national executive committee, which meets this morning, and at a special delegate conference, called to discuss the miners' strike, which is scheduled for after the strike.

The executive leaders are concerned that Mr Scargill has not done enough to ensure that the union's £2m funds, now in the hands of sequestrators, are returned to NUM control. Mr Scargill has refused to recognise the full authority of the court-appointed receiver.

They also believe that his attitude to the breakaway Union of Democratic Mineworkers (UDM) will have to change in order to prevent a high loss of membership to the UDM.

There is also concern over the outcome of the pay talks between the breakaway leaders and the National Coal Board. The NUM's policy of refusing to conclude area or pit level incentive agreements is seen as one which could also lead to a further loss of members to the UDM.

Mr Scargill and Mr Ian MacGregor, the NCB chairman, clashed yesterday over an offer which Mr Scargill said had been made to the NUM. Mr MacGregor accused Mr Scargill of "not telling the truth," while Mr Scargill responded by saying that the NCB chairman was "speaking through that plastic bag again."

## IATA MEETS ON EUROPEAN FARES' STRUCTURE

# Airlines to consider four-year trials of 'extra cheap' tickets

By Michael Donne, Aerospace Correspondent

PLANS FOR a wider spread of cheaper air fares in Western Europe may be carried a stage further this week.

Member-airlines of the International Air Transport Association meeting in Hamburg, will be asked to approve a scheme for lower fares that has already been accepted by the association's own governing executive committee, and by the independent Association of European Airlines (most of whose members are in the IATA anyway).

Broadly, this scheme proposes setting up for an experimental period of four years a system of "fare zones" below current normal economy fares, to permit "discount" and "deep discount" rates. In each zone, a "reference fare" would be fixed, at 80 per cent of the economy rate for the discount zone, and 60 per cent for the deep discount zone.

The airlines would be allowed to vary fares up or down by amounts up to 15 per cent on either side of the reference fare in each zone, without interference from governments. In each zone, specific booking and other restrictions on such cheaper fares would apply.

At face value, this scheme does go some way towards meeting the growing clamour for cheaper air fares in Western Europe. It has been designed to meet demands from the EEC itself for cheaper fares, a move which in turn stemmed from both the widening chorus of consumer complaints about high fares, and the growing pressures for greater liberalisation and airline competition in Western Europe.

The scheme is thus widely regarded by European airlines outside the UK as a genuine compromise, an attempt to get some consensus on the introduction of con-

trolled competition in a complex and extremely volatile situation.

But the proposed scheme has already run into some severe criticism, for not going far enough to meet the demands of those seeking more radical solutions to the problems of high fares and insufficient liberalisation.

It does not come anywhere near the UK Government's own pioneering efforts over recent years to get more liberalisation and cheaper fares through its bilateral agreements with such countries as the Netherlands, Belgium, Luxembourg, West Germany and to a lesser extent, France.

Moreover, at a meeting in Brussels in late September of the Association of European Airlines, the British Caledonian, one of the staunchest champions of cheaper air fares world-wide, dissociated itself from the plan, and walked out of the meeting.

British Airways also expressed its dissatisfaction, although it did not go so far as BCal in quitting the Brussels meeting. Nevertheless, it is known to feel just as strongly as BCal, and would prefer to see the UK Government's more aggressive methods of bilateral negotiations pursued throughout Europe.

Mr Michael Spicer, UK Aviation Minister who has spearheaded the British drive for cheaper fares over the past two years, is in no doubts about the situation. "We certainly don't think these AEA/IATA proposals go anywhere near far enough in the direction we want to go - which is much cheaper fares and increased liberalisation in Western Europe."

"We have two lines of action. We can and will continue our individual bilateral discussions with European governments, even if they take a

long time, confident that in the end our arguments will prevail.

"Secondly, we will work in the EEC to ensure that we eventually get cheaper fares, a more liberal air transport policy and a better definition of the competition rules. It could be tough going, but we intend to go ahead."

"We believe strongly that more competition and cheaper fares mean more business for all the European airlines. The agreements we have got so far in Europe prove the point, and we intend to hammer it home. We believe that the AEA with its latest proposals is out of touch with the trend of events."

Mr Spicer adds that the increased competition and the bid for cheaper fares is not coming just from the UK, but from other airlines outside Europe, and especially from the U.S. Scoones.

Other criticisms have been just as harsh. Europa, an independent European aviation watchdog body, has declared that the AEA/IATA proposals represent "a strained attempt to stubbornly maintain the status quo by papering over the cracks" in the current European airline structure.

Europa argues that the fares proposals are "more or less what we already have," with some of the existing advanced purchase excursion fares available close to the proposed "reference fares" for the discount and deep discount zones.

Some part of this row may wash over the IATA meeting in Hamburg. But, in any event, behind the fares scheme lie the seeds of an even potentially wider schism in European air transport - just how far airlines in the AEA/IATA lobby are prepared to go to ensure that the EEC's competition rules are not as rigidly applied to air transport as the Commission itself would like to see.

## Chocolate makers bite into EEC rules

By Richard Mooney

BRITAIN'S chocolate manufacturers are worried that changes in EEC rules might force them to adopt the "Euro-taste" of their continental competitors or find new names for their products.

Two sets of rules on chocolate manufacture are applied in the EEC. In the original six member states the term "chocolate" can only be used for products in which cocoa butter is the only fat used.

However, in Britain, Ireland and Denmark up to 5 per cent of other vegetable fats is allowed.

The EEC Commission wants to promote freer trade in chocolate products within the Community and has proposed that the less stringent rules in Britain, Ireland and Denmark should be applied in all member states.

However, the proposal has been opposed by some members, notably France and West Germany, and is being blocked in the European Parliament.

At the annual lunch of the Cocoa, Chocolate and Confectionery Alliance (CCCA) in London at the weekend Mr David Cramb, the CCCA president, said opposition was at government level.

He said the continental confectionery trade favoured less stringent regulation of chocolate ingredients.

Continental governments are in favour of freer trade in chocolate but they want it to be achieved by the EEC-wide adoption of their own code outlawing non-cocoa fats. This would involve British manufacturers in adjusting the recipes, and therefore the tastes, of their products, or sticking to the same recipes and renaming the products.

A West German suggestion for a new name for British-style chocolate translates as "fat glazing" while the Belgians have suggested "cocoa fantasy." Another idea, reportedly from France, is to call it "vegolite".

The proposal to adopt the British rules throughout the EEC has been attacked by cocoa producing countries, who fear that it would result in a reduction in demand for their cocoa.

Mr Cramb said that Britain's high level of chocolate sales compared with the rest of Europe indicated that a substantial rise in European sales could be expected if the British recipe was accepted. This rise should be enough to compensate for the lower proportion of cocoa butter involved, he said.

The preferred substitute for cocoa butter was shea nut oil, which grows mainly from the backward areas of West Africa, the world's main cocoa-producing region.

British chocolate sales totalled 427,475 tonnes last year, up from 351,760 tonnes in 1980, according to CCCA figures.

## Townsend takes on Belgian ferry partner

By Andrew Fisher, Shipping Correspondent

TOWNSEND THORESEN, the UK cross-Channel ferry company, will link up next year with the state-owned Belgian operator, Regie Voor Maritiem Transport (RMT), which is switching its allegiance from Sealink UK, its present partner.

Townsend said it would co-ordinate services with RMT on routes between England and Belgium. From January 1, 1986, RMT's ferry and jetfoil fleet, now marketed under the Sealink banner, will sail under Townsend colours.

Sailing schedules will be incorporated into the 1986 brochure of Townsend, a subsidiary of European Ferries which is shortly expected to announce orders worth some £70m for two or three new ferries for the Dover-Calais run.

The routes covered in the new agreement will be Dover to Ostend and Zeebrugge and Felixstowe to Zeebrugge. The UK and Belgian

companies recently decided to re-deploy their ships on existing routes to improve their utilisation.

Townsend said it was switching ships among routes to France, Belgium and Northern Ireland next spring to cope mainly with rising freight volumes. Both companies are also investing in their fleets. Apart from the proposed new ships, Townsend is spending some £30m on enlarging four ships.

RMT, spending around £15m on enlarging three of its vessels, did not say why it was switching to the Townsend Thoresen banner. But the size of recent losses is believed to have influenced its decision.

Dover, the busiest ferry port in Europe, is to start work earlier than planned on some of the developments aimed at increasing passenger and freight facilities and likely to cost £75m in the next five years. Total spending this year will be around £15m.

## Union power holds up in face of job cuts and recession

By Philip Bassett, Labour Correspondent

COMPANIES now have marginally more shop stewards (factory union leaders) than they did before the start of the recession, according to a forthcoming survey of workplace industrial relations in Britain.

This, and other findings of the survey by Dr Eric Batstone of Nuffield College, Oxford and others, confounds a number of ingrained preconceptions about the state of British industrial relations and suggest that the recession has had a much smaller impact than has been thought.

The study, of 1,000 shop stewards from a range of industries and covering both clerical and manual unions, is the first of its kind since the onset of the recession and is likely to be seen by both management and unions as an important indicator of industrial relations practice, thinking and climate.

Dr Batstone's survey looks specifically at how unions have responded to the impact of new technology, but prefaces this with more general industrial relations findings. Among them are:

● Shop stewards. The total number of stewards, especially senior and full-time stewards, has fallen less rapidly than employment in manufacturing, resulting in equivalent size establishments having more now than they had five years ago.

● Decision-making. In many areas of the economy, but particularly in engineering (production and maintenance), food and drink, electrical engineering, and chemicals, key union decisions on major agreements reached with their employer are still taken at mass meetings, with ballots dominant and sometimes then only marginally in white-collar areas, especially finance.

● Local leadership. In white-collar areas stewards are seen to be leading their members, but the opposite

is claimed in production and maintenance groups.

● Union influence. While sizeable minorities believe that their unions' influence has declined over the last five years, very few believe unions have little or no influence at all.

● Strikes. The majority of private sector companies experienced no strikes in the 12 months before the survey was taken in October last year, but Dr Batstone describes the rise in public-sector strikes in the survey period as "astronomical."

The survey looks at the first five years of the present Conservative Government, noting that in many areas - food and drink and engineering, for example - employment is now up to half what it was at the start of the survey period.

Normally, such job losses are supposed to have given considerable power to managements. Dr Batstone's survey is more sceptical. It finds, for instance, that despite the Government's ideological drive against it, there is little management opposition to the closed shop (compulsory union membership) where it exists.

While closed shop coverage varies considerably - from 88 per cent of chemical plants with a complete closed shop to 41 per cent of engineering establishments with no closed shop at all - there is little real change from the late 1970s.

Variety of coverage extends as well to management style. While relatively few stewards would go so far as to claim that managements have become less tough there is a roughly even division between those who think it has toughened up (most notably, 83 per cent in British Telecom) to those, such as in electrical engineering (36 per cent) and the printing industry (48 per cent) who claim to see no change.

Perhaps linked to this is the survey's evidence on the continuing role of the shop steward. Portrayals of stewards as circumvented, even marginalised, look on this evidence as though they may be confined to such well-known examples as B.I.

Since the number of stewards - ordinary senior and full-time - has declined less rapidly than jobs in their plants, there are proportionately slightly more of them now. In maintenance engineering, for instance, 20 per cent of all establishments still have two or more full-time stewards; in production chemicals, 28 per cent.

What clearly has changed is the pattern of strike action. Dr Batstone confirms that strikes have all but died out in the majority of establishments, though even so there were strikes in about a third of all manufacturing companies.

In the finance sector nearly a third of the sample had undergone a strike of some kind in the previous year, and in white-collar groups in the public sector the rate is even higher: more than four in every five.

Union Structure and Strategy in the Face of Technical Change, by Eric Batstone and Stephen Gowing, with Hugo Lewis and Roy Moore. Blackwell, Oxford.

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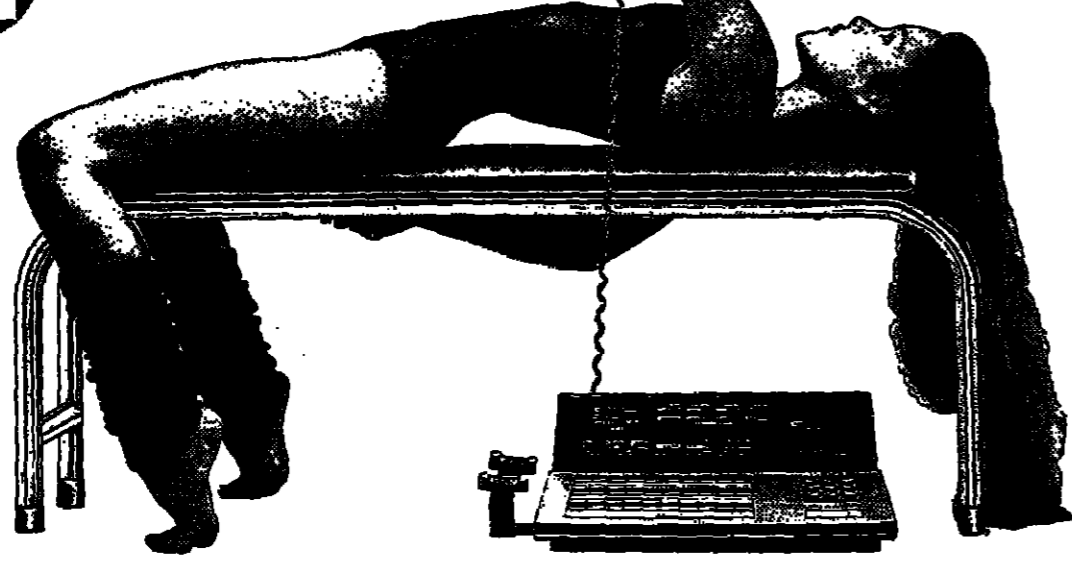
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## THE ARTS

Architecture  
Colin Amery

## The post-modernistic house that Jencks built

Charles Jencks, architect and historian, designed his London house as a built version of his theories. In the architectural fraternity Mr Jencks is known as a critic who encouraged a definition of the architectural movement, referred to as post-modernism, it has always been a critical puzzle, a fragmented movement that lacks more than a nominal leader. But Jencks has, in his architecture and his extensive writings, made the most convincing case for the new movement. The house in London is the apotheosis of his thinking, and its extraordinary achievement is apparent in a lavishly illustrated book he has produced (*Symbolic Architecture* by Charles Jencks, Academy Editions, £35).

Imagine a conventional 1840s end-of-terrace house set in a leafy west London street. These houses were built when there was a shared language of building, a kind of debased classicism that was easily understood by builders, clients and architects. Jencks is anxious to return to this sort of architecture, an architecture that through its symbolism reflects the common purpose of mankind. He has an irksome habit of inventing jargon and categorising everything; he talks a lot about "the web of signification," an underlying pattern of meanings that is shared by all civilised people. The trouble is that if a man from the moon, or even from Middlesbrough, was taken into the latest Jencks house he would not have the faintest idea what was going on.

In fact, it is not all that complicated. First it is important to understand that the exercise is about adding meaning to the house. The old house was completely converted with the help of several architects: rooms were added, staircases were moved and the whole place turned into a demonstration of theory.

The house has several themes. Jencks asks the important question: "What is there in this age to symbolise beyond the perennial themes of comfort and fashion?" He decided to illustrate perennial themes of time, both cosmic and everyday, so the house has rooms and spaces that represent the seasons and the solar system, and attempts to replicate cosmic geometry.

At the front door you are greeted by a stylised face and an abstract representation of the human body. Inside the door is the first space, the cosmic oval, a small room paneled with mirrored doors which are surrounded by a William Stok mural of 12 "paragons of open-mindedness." These include the Emperor Hadrian, Erasmus and Thomas Jefferson in conversation with Hannah Arendt. The pretension of this beginning is undeniably but the owner/architect disarming says it is there to show that we can only pretend to knowledge as nothing is certain. This is a worrying start to the development of a comprehensible system of symbols. The main sequence of rooms (we'll bypass the cosmic loo) represents the five seasons. Five?

Well, Mr Jencks has provided an extra one in the form of an Indian summer.

The Winter Room has as its focal point a fireplace designed by Michael Graves. The colours are sombre and a figurative bust of Hephaestus, spirit of winter, looks from high above the fire at the solid Jencks-designed furniture.

Spring has a different air. Three busts of bronze ladies symbolise somewhat heavily early spring, late spring and mid-spring against a wall sprigged with flowers. Shell motifs suggest Primavera and there is an agreeable seat in the large window where the real seasons can be observed.

Summer is the dining room and the kitchen Indian Summer. Summer is most successful with a sun table and fan-shaped chairs gleaming with yellow paint and varnish. The Buddhist rail seats wonderful shadows and the painting by Allen Jones of *Summer* has real spirit. Indian Summer suggests New Delhi in its colours of pink and cream, and the frieze of salad servers is an amusing touch. Autumn is a despatched as a general purpose room.

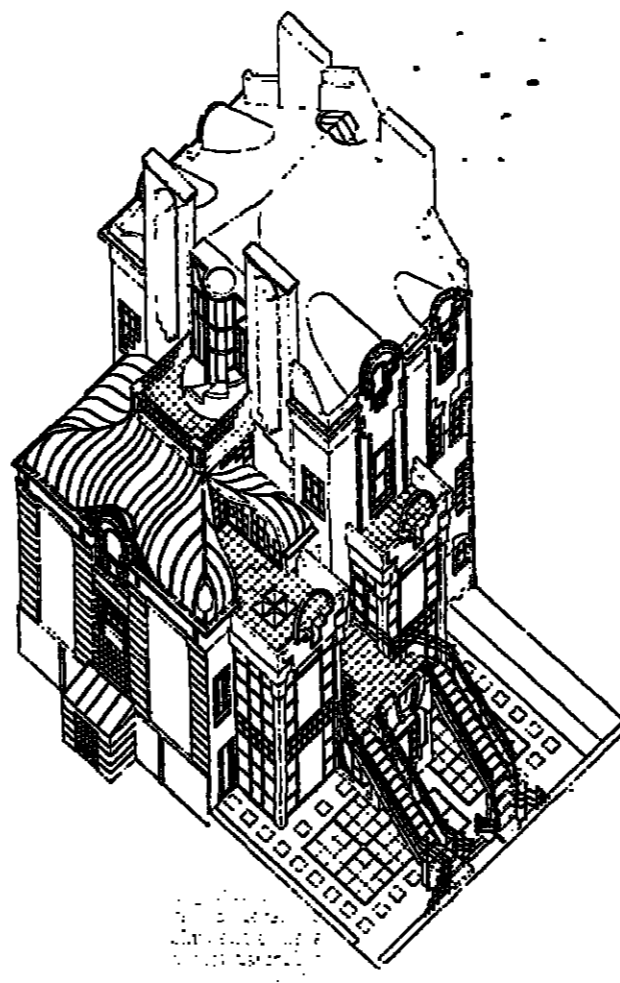
The solar stair is a beautifully made spiral of 52 steps with seven breaks and a decorative disc representing the months of the year. You look down the well into an Eduardo Paolozzi mosaic of a *Black Hole*.

The most striking rooms on the upper floor are the architectural library and the main bedroom. In the library the shelving units are themselves the shapes of the architectural periods of the books. A most beautiful swooping roof gable adds a moment of exhilaration. The bedroom, based on the theme of the square, is all in white with a gentle pastel frieze. The Moonwell, a mirrored shaft etched with shapes of the moon, provides a disturbing sense of lost space that catches the moonlight at night.

More of Jencks's design skills can be seen in a display of his symbolic furniture (at Aram Design, 3 Kean Street, Covent Garden, WC1 from November 1 to 23), much of which was designed for this house.

Like all private houses designed by architects for their own use this one is, in its way, obsessive. It sometimes sails right over the top aesthetically and like all post-modernism has yet to relax into a recognition that simplicity and a sense of proportion are often the best paths to perfection. But what is important is that Jencks has built a bridge between the troubled recent past and the future, and although it is a narrow bridge and we may have to squeeze past too many symbols, it often soars to great heights of creativity. Now that Mr Jencks is going to practise as a designer in London he deserves the opportunity to design houses for others. That will be the real test of the application of a symbolic programme. How many of his clients will have such fertile imaginations?

Line-drawing view of symbolic obsessiveness



## Endellion Quartet/Elizabeth Hall

Paul Driver

The audience was not unduly large for the Endellion String Quartet's concert at the Queen Elizabeth Hall on Friday, but one felt as one often can with London audiences that every member of it was interested in following the bar-to-bar unfolding of each piece of music. Quiet and concentration reigned, and were rewarded by some fine displays of the chamber art. The opening item, Britten's remarkable and surreal *Unaccompanied Piano* (1938), saw the young players at their peak of prowess, investing the quite complex but airily sonorous discourse with such dashing virtuosity and confident insight that it seemed to float feather-like above the platform, unconnected with its material origins in bow, resin and string.

These three movements are no mere arabesques: they have a huge, contained force and add up to what is virtually a quartet proper. They each — March, Waltz and Burlesque — reveal that combination of almost opportunistic idiomatic flair (Britten uses every trick of harmonies, pizzicatos, pianissimos, etc.) and simple, decisive effectiveness which creates the composer's highly characteristic, reverberant string quartet sound. Their date of composition is surprising: they seem to belong 40 years later in the world of the String Quartet No. 3 with its characteristic inner movements. The Endellion Quartet is obviously committed to the Divertimenti and indeed about to record them, along with the rest of Britten's output for the medium. (They have previously recorded John Fould's quartet *"Aus mein Leben"*.)

Smetana's *E minor quartet* ("Aus mein Leben") was given with as much care and love — with the latter, since this work with its haunting, perfectly expressive "little phrase" is best loved by quartet players, who feel for it what violinists feel for Max Bruch's first concerto. The first movement brought plenty of exposure for the group's excellent viola player, Garfield Jackson, and his fine old English instrument, made by John Lott. The *Largo Sostento* third movement was searching, tender, and rapt. For the concert's second half the quartet bravely attempted Beethoven's Opus 130 and used the *Gross Fuge* for finale instead of the composer's authorised one. Few groups are equal to the avant-garde waywardness of this masterpiece or have the stamina to make a convincing structural case of the super-added fuge. The Endellion's account, though insufficiently tough-minded from place to place, survived well, and gave great promise of future ripeness.

Not that there is anything small-scale about their performances: on Friday Bruckner's

## Hallé Orchestra/Barbican Hall

David Murray

Symphony No. 3, an awkward work, had no less breadth than Abbado's severely brilliant Mahler Sixth the night before, and in the right places it made as much noise. (While the programme notes assured us that Bruckner calls for "no more than a standard orchestra," Skrowaczewski chose to use quadruple winds.) The Third is so candidly sectional that there is no hope of tracing a coherent argument straight through the piece; Skrowaczewski instead made the most of all sections, exploring them to extreme sympathy and tact.

He drew up a rich haul, with each "sturdy" characterised paragraph — hit by glowing details. Very Brucknerish rustic moments got the right chunky ambience, not smoothed into something less expressive. A sense of firm, if comfortable, structure was always retained, and the Finale (in the 1899 Novak version) rose by confident steps to an eloquent peroration. Though he can preside over a feast of unassuming playing, such as we had in the Adagio-like expanded chamber-music, Skrowaczewski has an assured Classical care for pace — much more in early Bruckner than in later Bruckner — that permits affection.

He played that earlier, in Beethoven's *Coriolanus* Overture, where the solid, contained tread made an impression from the start. The musical narrative was kept objective, neither excited nor excited but plainly exciting. For Haydn's *D major Cello Concerto*, the soloist John Harrell was allowed to set his own amiable terms, more relaxed and with an easier spring. His ruminative, resinous timbre added attractive personality to what is fairly innocent music, and he took the showy passages (it doesn't seem to matter whether Haydn himself wrote them) with modest ease.

Martha owns and runs, single-handed but never on the stage, a butcher's shop specialising in offal. This evidently gives her a modest but secure living, and from it she derives a solid sense of freedom. Only her relations with her lover Otto is the freedom limited. There it is illusory, for she is totally under his thumb. Otto is a thing working in a factory somewhere, and visits Martha only for sex congress. We are shown two examples of this, one on the kitchen table, the other, of the oral variety, where he is in a chair and she kneels on the floor. They add a little, not much, to the splotchy atmosphere, nothing to the plot.

Two other episodes are noted as significant. When Martha's dog barks outside, Otto takes a strap to it for attracting attention that he thinks belongs to himself. And once evening he and Martha go together to a fancy dress ball at which, in characteristically, he plays around these two events and the two sexual unions are away in periods in which Otto is long absent. The entries, which she reads to us, contain little besides dates and minor speculations, though one day she writes a poem. From the diary and his occasional appearances for food or sex we trace Martha's vain efforts to persuade Otto to come and live with her, and his determined resolution not to do so. He too values his freedom.

An hour and three-quarters is rather a long time to maintain interest, in so unvarying a situation, but the acting of Eileen Nicholas and Ken Stott is worth watching — he stolidly unfeeling, she placing the tiny distance between pathetic gradation and determined hope. Only at one point ("It's always my money he spends") does she show any resentment at his attentions, and it is just at that point that the dates in the diary begin to tell us that he has given up.

The translation into Scots from the German of Franz Xavier Kroetz is by Anthony Vivis. For some reason he has left the talk on the radio and television in German, as if Martha and Otto were exiles in a foreign land. The acting, by Jenny Killick, and the spare kitchen set is by David Leat.

## Command or Promise/Cottesloe

Martin Hoyle

After *Red Devils*, exhilaratingly glimpsed on the London fringe last year, its sequel *True Dure Kiss*, presented as part of the Cottesloe's festival of new plays three weeks ago, seemed self-conscious and over-calculated. The final play in the trilogy that chronicles the bumpy ride into adulthood and fulfilment of four football-loving Salford girls is however a treat. The author, Debbie Horsfield, is back on form — true, funny, gutsy and touching — just as the girls, when we last saw them, were back on the terraces belting out "Che sera sera".

It has been a rough ride. Punk Beth has urged her boyfriend to the Falklands only to attempt suicide when he returns blinded. Hairdresser Nita achieves furs, a Capri, anorexia and victimisation in a protection racket that includes murder, before freeing herself from David Cordy's beautifully flashy little *Casanova* of the pina colada set.

Compact and trim, Alice gets her divorce and, in Sally Jane Jackson's perfectly judged performance develops from silliness to confident self-realisation ("I've been bored for years; I called it content"). Only student Phil's affair with her tutor remains somewhat unfocused despite Stella Gonet's impassioned playing, quick to enthusiasm, anger and disillusionment. And I still find in Miss Horsfield's satire on trends the slightly heavy-handed touch of a TV comedy. Against the cheerful abstract splashes of Alison Chitty's set, John Burgess's production whizzes along. Scenes are cross-cut or played simultaneously. Marvellous ensemble playing from all: Lesley Sharp's Beth convinces as the foul-mouthed tearaway, Tara Shaw as a Thatcherite but vulnerable small businesswoman. Both are complex and contradictory; all develop and change through the course of the play. Only a few more performances to be enjoyed.

The opera season at Sadler's Wells continues with Verdi's *La Traviata*. This production, an elegant and generally handsome affair, was well received when it was new and will run alongside Sadler's Wells' operetta counterparts during the next month.

Its revival is, as yet, stiff at the joints. This was a first night of obvious nervousness, all eyes front on the conductor, all fingers counting with determination towards the next entry. One sensed that the singers were always looking for the right way and moment to make their points without ever quite finding them. But it is a very young cast and their

abilities point with obvious promise to the future. None of them is likely to deliver more than Elizabeth Cullier's Violetta, dark-haired, fatally attractive, she is a wholly plausible Dumas heroine, who bubbles over with new responses to the opera from her wilfulness in the first scene to the hearty slap on the thigh with which she launched into her first act cabaret. Clearer words would help here and more voice at the big moments.

In the long scene with Alfredo's father, she is not so convincing. But then Donald Maxwell's Germont père is an unusually pompous figure, who does not even win our sympathy with his effective if somewhat nasal singing in his aria. Elin Begley's Alfredo is certainly still feeling his way. There are odd moments of poor intonation and much of the role passes him by with nothing of passion or involvement.

Otherwise the score is well treated. We do, indeed, get more of it than usual, including both verses of Violetta's first act aria and the baritone's second act cabaret. Barry Wordsworth directs it all with swift tempo and light rhythms, but not many of those traditional moments of rubato that let the singers mould their lines with expression.

## La Traviata/Sadler's Wells

Richard Fairman

## Saleroom/Antony Thorncroft

## Enamelled debauchery

King Farouk of Egypt had a well-deserved reputation for lechery, and he was an enthusiastic collector of erotic sculptures. So two watches, made by James Cox in London around 1780, naturally tickled his fancy. Heart shaped and harness-like, they were set up to scenes of enamelled debauchery.

The watches are on offer at Sotheby's today, each with a 10,000-£5,000 price tag. They come from the collection of John Sheldon, the late owner of the New Bond Street jewellers of Bentley and Company, who was once placed in a high note by selling in Sydney, Australia, a view of that city painted in 1866 by Eugene von Guerard for £570,000, or £338,164, the second highest price ever paid for an Australian painting.

Sotheby's ended last week on a high note by selling in Sydney, Australia, a view of that city painted in 1866 by Eugene von Guerard for £570,000, or £338,164, the second highest price ever paid for an Australian painting.

Three times a year the salerooms offer photographic material, and collectors from throughout the world will be flocking to London this week. There is an increasing shortage of the finest material but Sotheby's on Friday is offering "The Photographic Album for the Year 1855" for around £20,000 — as against £4,000 for a similar copy 10 years ago — and an 1839 study of windmills by Hippolyte Bayard, now considered the equal in innovation of Fox-Talbot and Daguerre, for up to £10,000.

Christie's South Kensington should make the top price on Thursday when a copy of O'Sullivan and Bell's exploratory expedition of the U.S. west of the 100th meridian, in 1871-72, with 50 photographs, is on offer at £20,000-£30,000.

Anyone interested in Victorian art should visit New York. On Thursday Sotheby's is selling seven works by Alma-Tadema, and important paint-

ings by Arthur Moore ("Lightning and Light") and Sir Edward Burn-Jones ("The Christies has one of the three versions of "Coming of age in the olden time" by Frith, along with many equestrian pictures. Sotheby's ended last week on a high note by selling in Sydney, Australia, a view of that city painted in 1866 by Eugene von Guerard for £570,000, or £338,164, the second highest price ever paid for an Australian painting.

Another milestone completed was the 10 session sale of the Brand collection of coins, which began in July 1982. In total more than £4.5m was brought in for the executors of Virgil Brand's niece, who inherited a large part of this famous collection. Brand himself died 60 years ago. The top price from the coins was the 1985.012 paid in 1983 by an Arab dealer for a Jewish shekel of AD 66-70.

Touring 'Tosca' in Scotland

Scottish Opera Go Round, the touring company of Scottish opera, is taking a version of Puccini's *Tosca*, with a cast of six, on a tour of 21 towns and villages throughout Scotland. Sponsored by the Scottish Postal Board, the tour begins on Thursday October 31 and will last eight weeks.

Gwen John exhibition extended

The Gwen John exhibition at the Barbican Art Gallery has been extended for one week, and will now finish on November 10.

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## Arts Guide Oct 25-31

## Music

**PARIS**  
Chantal Sclafani, piano: Bach, Beethoven, Debussy, Ravel (Mon), Salle Gaveaux (532 2630).

**NEW YORK**  
New York Philharmonic (Avery Fisher Hall): Riccardo Chailly conducting, Andre Watts piano, Russell, Beethoven, Prokofiev (Tue), Riccardo Chailly conducting, Yuzuko Horiguchi violin, Stravinsky, Mendelssohn, Beethoven (Thur), Lincoln Center (812 2424).

**WASHINGTON**  
National Symphony (Concert Hall): Rafael Fruhbeck de Burgos conducting, with Elizabeth Knighton soprano, Marta Sosa mezzo-soprano, and Choral Arts Society of Washington, directed by Norman Scriber. All-Mahler programme (Thur), Kennedy Center (785 6110).

**CHICAGO**  
Orchestra Hall: Munich Philharmonic, Lorin Maazel conducting, Weber, Hindemith, Brahms (Wed), Chicago Symphony, Klaus Tennstedt conducting with Kyung Wha Chung, violin, Beethoven, Bruckner (Thur), (435 8122).

**TOKYO**  
Tokyo Philharmonic Orchestra, violin, Fujikawa, Bruch, Mahler, Tokyo Bunka Kaikan (Mon), (256 9696; 436 3373).

**BRUSSELS**  
Palais des Beaux Arts: Orquesta de Camera Espanola, with Victor Marin, violin, Boccherini, Ledat, Ordenez, Martinez (Mon), National



THE original theory behind the European Community was that economic integration was a collective necessity and would deliver collective benefits to all the member states; experience would create the appetite for more. During an early phase, this theory seemed to work; but the stagnation of the past decade has proved it seriously deficient.

In June, it enjoyed a short emotional revival, when seven member states decided to launch a new Intergovernmental Conference (IGC) to revise the Rome Treaty and propel the Community at top speed towards the millennium. Four months later, most integrationist enthusiasm has evaporated, and the IGC is heading for a very uncertain outcome. It seems the theory flops again. Why?

It may be that the founding fathers over-estimated the locomotive force of collective and mutual self-interest. In particular, they may have under-rated (because it was contrary to their philosophy) the need for political leadership.

It was contrary to their philosophy, because the idea of leadership implies one or more leaders: this was meant to be a collective enterprise. In practice, leadership has always been critical, and it has mainly been provided by France, sometimes for good, sometimes for ill. And it is arguable that the real reason for the stagnation of the Community is the profound and historic conflict between Britain and France over this question of leadership. In which case, the future development of Europe will hang on the evolution of attitudes in the two countries towards each other.

The distinction between objective and subjective factors, is of course quite artificial: the one interacts with the other. But to focus exclusively on calculations of collective interests is to risk under-rating the mood factor. And I just wonder whether, behind the nationalistic facades, we may not be witnessing a subtle but significant evolution of Franco-British attitudes.

Under the objective rubric, there is a plethora of factors, internal and external, economic and technological and military, which ought to be pushing the Ten down the integrationist road.

Do these objective pressures elicit a robust reaffirmation of the European enterprise? No. Last week's meeting of the ten foreign ministers seems to have ruled out any commitment, however hypocritical, to a Europe without frontiers; and the French contemptuously lashed the Italians for wasting everybody's time with willfully qualified proposals for strengthening the European Parliament.

It is still too early to predict

## Foreign Affairs

# Why we need an entente un peu plus cordiale

By Ian Davidson

how far they will get by the next Euro-summit in five weeks' time. A modest, uninspiring but worthwhile package of reforms ought to be attainable; but if they go on drifting, there is a danger of another rush of emotion to the head, another futile and destructive little drama. On the other hand, it is not too early to say that the nationalist reflex is still alive and well, despite the objective pressures to grow up. In which case, what weight can we ascribe to an evolution in Franco-British attitudes — if there is such an evolution?

## France's decisive role, for good or ill

end, they must know that they will have to settle for whatever France is prepared to settle for."

France's decisive role in the European enterprise, for good or ill, has been obvious from the very beginning. For just as long it has been contested by the British, who frequently toyed with the idea of alternative alliances to out-manoeuvre the French: with Germany, with the Benelux countries, with Italy.

If France's pivotal position is now accepted as a fact of life, that suggests a significant evolution in British attitudes. The unspoken corollary is

that Britain, too, should settle for anything France will settle for — especially now that France seems to have scaled down its Euro-rhetoric. The question is prompted in part by a three-day Franco-British seminar on defence issues, hosted by the government-sponsored Franco-British Council in Lyon, which I attended a week ago. For the main surprise, to me, was the amiability of our debates.

After de Gaulle took France out of Nato in 1966, her defence policy became a taboo subject, too hot to be discussed. The French gloried in their new self-confidence; the British grudgingly reiterated their commitment to the Alliance, but privately poured vitriolic scorn on France's parasitic "independence." The French military secretly cultivated co-operation in the Alliance, but political dialogue on defence was impossible.

The taboo began to recede after President Mitterrand instituted defence talks with Germany. The Germans responded with enthusiasm; but an important by-product was that France's neighbours and allies began to voice the resentments that they had bitten back for the previous 15 years.

Two years ago, I was at another conference on Europe; when the subject of defence came up, the French were attacked by the Germans and the Dutch, among others. In sum, they said: "Your policy of national independence is all very well; but if the balloon goes up, where will your army be — in Germany or in France?" The French chairman, an Atlantist if ever there was

one, was visibly shaken; he had never, he said, been addressed in such bitter terms.

This same psycho-drama was again played out a year later, at an Anglo-French defence seminar: the British accused the French of being bad allies, the French accused the British of being bad Europeans. The case for more Anglo-French, and more European, security co-operation is unanswerable; but the option seemed to be foreclosed by psychological hang-ups, and by French obsession with the Paris-Bonn axis.

Last week's meeting was very different. In place of recriminations, there was an evident desire to emphasise common interests and overlapping policies. One British remarker said, behind different rhetorical postures, the real nuclear weapons policies of the two countries were rather close. The French generally seemed anxious to stress alliance solidarity over national independence, and one argued forcefully that the new Force d'Action Rapide was expressly designed to enable France to fulfil its Nato obligations.

It may be that the lifting of the taboo has had a cathartic impact on the French, who have been shocked to hear so many home truths. At all events, the past year has seen a noticeable shift by all the big French political parties, apart from the Communists, away from the old fixation on national sanctuary and towards a greater commitment to the defence of Europe. One of last week's French participants speculated that the Elysée might soon revise its declaratory policy in this direction.

Perhaps longer time-scales are at work as well. Gaullism was spawned in reaction to the abject humiliation of the collapse of 1940; Britain's war experience prompted an opposite but equally contradictory posture — military integration in Europe, but political and economic isolation. The new generations now acquiring influence in their 40s may feel less need to compensate for something which happened before they were born.

The European idea has a lot further to go in Britain than in France, but it is clear that the mid-life elite in Britain is much more European than its predecessors. Just as important, their French counterparts are beginning to know it.

Conversely, the French are having to recognise that there

## Perhaps longer time-scales are at work

can be no reconciliation between military isolation and politico-economic solidarity in Europe, and that the Franco-German axis does not offer a way out of this dilemma. If the opening of Franco-German defence discussions is forcing France to re-appraise its defence doctrine, both real and declaratory, the logical corollary is a reappraisal of defence relations with France's other main European ally and nuclear power, Britain.

Helmut Schmidt, the former German Chancellor, would disagree. In his forthcoming book, A Grand Strategy for the West,

he puts all his faith in the Franco-German relationship, and dismisses the British as incurably non-European.

"I have come to think that the British are not really prepared to cast their lot with the rest of the European nations. . . . Almost no woman or man in office in Whitehall, thinks that the Atlantic Ocean . . . is broader than the Channel."

He may well have been right 15 years ago, and even today, there remain large enclaves of primitivism in Britain (as in France). But as a general judgment on British attitudes, Schmidt's formulation is out of date: there has been a substantial evolution in the past few years, and I could see it at last week's seminar.

But are the key people changing their views? The trouble with political leadership is that it can only be exercised by political leaders, and they may have the wrong reflexes and nostalgic supporters.

Last week, a Frenchman with some history agreed that there had been real movement in British elite attitudes "except at the very top"; and in the run-up to his party's probable defeat next spring, Francois Mitterrand may be tempted to upstage everybody with some unhelpful coup de theatre. The combination, at next month's Anglo-French summit, could be distinctly counter-productive.

Still, if more people were to recognise that the key to Britain's relationship with Europe lies in France, that would be progress. And the French? Ah . . . But they have more ghosts to exorcise, and they are still working out their German problem.

## Lombard

# Taking Labour seriously

By Peter Riddell

MR TONY BENN and the hard Left are, for once, in agreement with the City establishment. They both believe that the Labour leadership's economic strategy will fail.

For Mr Benn and his allies the Kinnebrook/Hattersley approach of a national investment bank and any understanding with the unions is mere tinkering and is insufficiently socialist and radical, hence it will be brushed aside by the forces of international capital. For the City, whether Young or Old Turks, the strategy of repatriation of exported capital and reduction in unworkable and will have to be substantially modified in response to the pressures of events, and of markets.

Both groups draw comparisons with what happened in the 1974-80 period with the International Monetary Fund cast, respectively, as agent of betrayal or enlightenment. Yet both views, while comforting to the predispositions of the holders, ignore crucial political differences. The Labour leadership is approaching the late 1980s and early 1990s aware of the lessons to be drawn from the 1970s, not with a desire to repeat that searing experience.

When Labour was in opposition in the early 1970s the initiative had lain with left. Mr Benn and his allies were able to win support for a radical programme of public ownership and intervention. This prompted the famous Harold Wilson remark about nationalising Marks & Spencer to make it as efficient as the Co-op. But in spite of reservations, the leadership was weak, preferring to ignore party conference decisions rather than to face up to them.

In office after 1974 the leadership was eager to water down these pledges. For instance, Mr Benn was replaced as Industry Secretary in mid-1975 by Mr Eric Varley and the proposals for planning agreements and a National Enterprise Board were introduced in a much less radical way than originally envisaged. These modifications reflected the centre-right leadership's views and occurred before the 1976 sterling crisis and the arrival of the IMF, which changed little.

The main difference now is that the initiative lies with the centre-right in the Labour

Party, not the hard-left. It is no longer a matter of party leaders watering down radical ideas. They are originating them. The proposals for a national investment bank and for increasing taxes on the well-off have come from Mr Roy Hattersley, not from a Bennite sub-committee. Similarly, the argument that the Government should intervene directly and extensively to secure the revival of manufacturing industry has come from that epitome of Scottish respectability, Mr John Smith.

None of this necessarily makes Labour's approach more workable, or acceptable to many in the City or industry. But the ideas have not been put forward lightly or half-heartedly with the private intention of ditching them later. Labour's current programme is, for better or worse, the product of lengthy discussions and is meant to be the core of what a Labour government would do in office. Both the hard Left and City opinion are wrong to believe that current proposals will quickly be diluted as Labour's 1972-73 programme was.

There is the parallel error of trying to pick and choose in Labour's programme. Some items, such as Labour's rethinking of public ownership, are praised, while others, such as the national investment bank, are damned. Both points may be valid but the programme has to be considered as a whole, not piecemeal in relation to some non-political standards. Like it or not, Labour's economic and industrial programme should be taken seriously.

To some extent this is already happening. Mr Roy Hattersley's recent speeches have resulted in a large number of inquiries from the City and from industry as well as many invitations. Mr Hattersley's call on Friday for regular talks with the Confederation of British Industry, while obviously in large part an attempt to outflank the Government, also reflects Labour's desire to show its commitment to manufacturing. The CBI has been predictably cautious, not wanting further to alienate ministers, but the CBI might consider issuing a last-minute invitation to Mr Hattersley and to the Alliance leaders to discuss their industrial ideas at its annual conference next month.

## Institutional shareholders

From the Managing Director, Prudential Portfolio Managers

Sir,—Your leading article of October 21 suggested that institutional shareholders are insufficiently demanding in obtaining management changes in poorly run companies. When action is taken by institutional shareholders to promote boardroom changes this is not normally publicised. The reason for this is plain. The sensitive and often prolonged discussions with management are in the spotlight of publicity. If judgments such as that made in your leading article are to be made by reference to those cases where management changes have been accompanied by publicity, then you are indeed building a structure on the flimsiest of foundations. Your further suggestion that the diffusion of share ownership would lead to more effective action against poorly managed companies is not credible. There is no evidence I am aware of to show that shareholder inspired management changes were more effectively conducted in say, the 1960s when the ownership of shares was much less concentrated.

The strengthening of under-performance is only a small part of the activities which concern responsible institutional shareholders. Over many years the various investment protection committees have ensured that a better balance has been struck between the demands of the boards of companies and that of shareholders. I wonder to what extent some of the excesses of the merger and acquisition scene in the United States owes itself to the absence of the co-ordinated shareholder groups which are a feature of the UK?

J. W. Hindley,  
142, Holborn Bars,  
EC1.

## Monetarist fashion

From Mr D. Fair  
Sir,—Thank heavens the Chancellor is abandoning the cosmetic temptations of monetarist fashion. There can hardly have been a more extraordinary sight in this period of privatisation than the Bank of England's takeover of commercial bank lending to preserve the appearance of monetary respectability, in the five years from 1980 when bank borrowing by UK industrial and commercial companies rose by £27.5bn the Bank of England's holdings of UK commercial bills, etc., rose by £10bn. The banks seem not to have complained at this poaching. Perhaps we should

## Letters to the Editor

deduce from this that it had not been without cost to the taxpayer.

Now that we shall have a clearer basis for judging the underlying trend in the money supply, the authorities should be better able to find acceptance for changes in the pace of monetary growth attributable to new influences (such as the attractions of the high real rates of interest on deposits), without there being any monetary restraint has been loosened.

Don Fair,  
(Adviser, City University Business School)  
6, Pembroke Villas, W8.

## Overseas post

From the Director of Public Relations,  
The Post Office

Sir,—Mr Michael Corby's comments (October 19) on overseas postal prices are highly selective. The facts are that there are no increases for the majority of overseas services — including letters and aerograms.

It is true that the Post Office has a number of heavily loss-making overseas services (such as surface printed papers, newspapers and small packets) which are currently being subsidised by other users of the overseas post.

These services, which represent only one fifth of overseas letter revenue, will still be subsidised after the increases. Alan Feinstein,  
33, Grosvenor Place, SW1.

## Display units and radiation

From the Head,  
Physics Department,  
National Radiological Protection Board

Sir,—In your article of October 23 "Filter aims to eliminate radiation" you state that the filters in question have "been fully tested by the National Radiological Protection Board (NRPB)" and have been found to cut out 99 per cent of ultra-violet radiation and 70 per cent of X-rays. NRPB tested these filters for X-ray and radiofrequency transmission and for static field elimination, not for ultra violet transmission.

In carrying out these measurements we made it clear to the suppliers of the screen that we did not consider their use necessary to attenuate the low levels of radiation characteristic

of visual display units (VDUs) although they may have uses in reducing glare and electrostatic effects. NRPB has made measurements on some hundreds of VDUs and our findings are similar to those of government agencies in other countries. The radiation emissions that have been measured are invariably of order of magnitude below both the levels permissible by applicable standards and the levels at which any harmful effects are judged to be possible where there are no such standards. No desk-top VDU examined by NRPB has demonstrated emission of X-rays which are detectable against the natural background radiation levels found in normal office environments. In order to assess the effectiveness of the screens submitted for testing it was necessary to use an X-ray set.

The implication in your article that VDUs emit X-rays which require attenuation to achieve safe levels may unnecessarily alarm people and has no basis in fact.

(Dr) A. F. McKinlay,  
Chilton,  
Didcot, Oxon.

## Index-linked mortgages

From Mr F. Kraus  
Sir,—Clive Wolman (October 24) was correct in saying that it was Nationwide Building Society which first issued index-linked mortgages. He was quite wrong, however, in saying that our efforts have been "plagued by legal difficulties."

The society's friendly High Court test case with the Chief Registrar of Friendly Societies paved the way for Nationwide to commence indexed lending in July 1983. Since that time we have been operating various schemes successfully throughout the country, the society having committed over £21m for such loans.

These funds have been used primarily for housing association developments including the provision of sheltered housing for the elderly, shared ownership schemes and our novel "first step" scheme under which only 50 per cent of the loan is indexed, thus ensuring both cost savings and equity retention for the first-time buyers to whom we lend.

Frank Kraus,  
(Assistant General Manager, Legal Services),  
Nationwide Building Society,  
New Oxford House,  
High Holborn, WCL.

## Defence ministry management

From Admiral  
Sir Lindsay Bryson

Sir,—You reported my inaugural address to the Institution of Electrical Engineers (October 4) and the report drew comment from Captain John Moore, RN, in this column on October 19. The impression given by your report, and emphasised by Captain Moore, is that my address was largely a criticism of Ministry of Defence procurement policy. Certainly there was criticism within it, but the address of about one hour was essentially a historic survey of Naval procurement in three areas and while relating, mostly with the benefit of hindsight, where things had gone wrong also described what had been done to put them right. Unfortunately that aspect of my address has not come through, and it may be my fault for not emphasising this positive side strongly enough.


Naval procurement has changed substantially and for the better in the past decade and many of the changes were initiated by my predecessors. I would wish to acknowledge the criticism of the Ministry of Defence which I voiced have already been widely accepted, and by and large measures to correct them have been introduced or are in the pipeline.

In the meantime, I believe strongly that adequate research must precede development and that those best qualified to carry out research programmes are not usually as well qualified to manage engineering development. Equally, I am convinced that development and production should be closely associated, and ease (and cheapness) of production should be a driving force during the development stage.

At all times defence research is best managed by the Ministry of Defence research establishments using Universities, industry and their own laboratories. In wartime, as confirmed by recent experience in the south Atlantic, the urgency of the requirements will force us to use research establishments to manage and expedite the carrying out of development and prototype production in areas where there is a lack of immediate industrial capability or know-how. We must always bear this in mind when tailoring the activities of the research establishment to match the peace-time requirement.

(Sir) Lindsay Bryson,  
74 Dyke Road Avenue,  
Brighton, Sussex.

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## FINANCIAL TIMES SURVEY

## West Germany

## — a giant hesitates

IT WAS President Richard von Weizsäcker who captured the complexities of the moment most elegantly and exactly.

West Germans, he said in his riveting address on May 8 to the Bundestag, certainly had no reason to be self-righteous or arrogant. But, he went on, "we may look back with gratitude on our development over these last 40 years, if we use the memory of our history as a guideline for our future behaviour."

That day, as anyone not marooned on a desert island must know, marked the 40th anniversary of the end of the Second World War. Like all such commemorations it was ambiguous—nowhere more so than in West Germany. It was at once a measure of how far the country has come since the ruin of 1945, and yet a reminder of the extent to which it remains a prisoner of the events which that year reached their climax.

In many respects West Germany is just another EEC country, which has done as well, if not better, than its Community partners in coping with the problems they share in the closing decades of the 20th century. There will be no shadow of the past hanging over the general election it faces in early 1987, rather the economy, prosperity, and how best to bring down an unemployment rate of around 9 per cent.

West Germany stands today as the greatest economic power in Western Europe, boasting steady if unremarkable growth and the lowest inflation rate in the world. Like the rest of the old continent, it is worried about how to keep up with the high technology challenge of the U.S. and Japan: like most others in the Atlantic Alliance, it is concerned at the Pandora's box of implications opened up by the Star Wars strategic defence initiative (SDI) of President Reagan.

Four decades after the end of the Second World War, West Germany remains a land of contradictions. It has developed an enviably stable democracy and the most powerful economy in Western Europe, yet in some respects still searches for an identity.

RUPERT CORNWELL REPORTS FROM BONN

Like more than one of its neighbours, it has witnessed in the last 12 months titillating political scandal, as well as a modest degree of urban rioting. Yet, neither these, nor the introspective celebration of the collapse of the Nazi regime, were the events which have most captured the public imagination. Those were provided by the exploits of Boris Becker, the 17-year-old tennis prodigy who won Wimbledon and led West Germany to the final of the Davis Cup.

But, it is impossible to pretend that in numerous ways, the country is not still conditioned by its past. More than 36 years have gone by since the Federal Republic became an independent state: nevertheless the old jibe that West Germany is an economic giant but a political dwarf contains more than a grain of truth. In part, this is due to self-imposed inhibitions after what happened between 1933 and 1945, in part to the de facto consequences of defeat, foreign occupation and dismemberment. The anniversary

merely brought the constraints into vivid focus.

One symptom was the controversy over Mr Reagan's visit to the Bitburg military cemetery where SS soldiers are buried: another was the huge interest, stretching far beyond Germany, aroused by the von Weizsäcker speech. Even the rash of spy-defections to East Germany, which virtually monopolised the headlines this summer, is testament of a kind to the anomaly of a single German nation split by the aftermath of war into two halves, which now find themselves in the front lines of two opposing ideological and military systems.

But, the effects may also be seen in the discretion and caution of Bonn's foreign policy. West Germany ranks as one of the "Big Three" of the Community, yet there is none of the flamboyance of France, or the dogged pragmatism of the British. Bonn, except in the purely economic or environmental field, seems rarely to take initiatives. To some extent this reflects the intensely federal structure of the country, if any-

thing over-endowed with checks and balances.

But a contributory factor is the past and the desire to ruffle as few foreign feathers as possible. This month has provided one striking example with the argument over the merits of an DM 50m deal to supply Saudi Arabia with a munitions plant. Almost any other country would have been congratulating itself on a Middle Eastern coup: in the case of Bonn, it merely drags West Germany back on to the emotive, infinitely delicate terrain of relations with Israel.

The complexities spread to West Germany's very place in the world. None of its leaders has been more whole-hearted in his commitment to the Western Alliance and Washington than Chancellor Helmut Kohl, or to Bonn's role in the vanguard of the EEC. Upon these foundations he has tried to revive a sense of patriotism, of legitimate pride in the achievement of the most democratic state ever to exist upon German soil. With his fondness for the long dormant expression *Vaterland*, he constantly holds out the distant vision of a Germany reunited.

But at this point the opposite tugs become acute. For however inevitably the two Germanies may be growing apart, however remote the prospect of reunification may be, the fact remains that the road to that goal lies through Moscow, the patron power of the other Germany.

All, too, must be done without summoning in the East the unforgotten spectre of German militarism—despite the presence on West German territory of a huge concentration of nuclear weapons, certainly not in German hands but aimed at Eastern Europe and the Soviet Union, and despite the position of the Bundeswehr as a lynch pin of Nato's conventional forces in Europe. These conflicting pressures



West German President, Richard von Weizsäcker, left, talks to Chancellor Helmut Kohl. The President has become one of West Germany's most popular and respected figures.

help explain Bonn's obsessive pre-occupation with improving East-West relations and with arms control. They underline its tireless diplomacy in Eastern Europe—even though, sometimes results hardly measure up to the effort expended—and make it easier to understand why West Germany can appear as much played upon as player in the great East-West game.

For the reasons listed above, Bonn is always the prime target of Moscow's intermittent efforts to split the Western Alliance with tantalising arms cut proposals. Equally, the constant massaging of the West German ego by Washington, and the French idea of a closer defence relationship with Bonn, both reflect the fear that such Soviet blandishments might bear fruit.

Chancellor Kohl, of course, has not wavered. In 1983 he secured the crucial Bundestag approval for the deployment of Nato Cruise and Pershing II missiles, and today is a good

deal keener on SDI than some of his Cabinet ministers, notably Herr Hans-Dietrich Genscher, the Free Democrat (FDP) Foreign minister. But would the Social Democrat opposition prove as steadfast, if returned to power?

On the face of it, the answer must be no. The defeat of the last SPD-led Government, under Helmut Schmidt, in late 1982 saw a sharp leftward lurch in Social Democrat defence policy, which has subsequently been modified only in part. The SPD opposed missile deployment and rejects the very idea of SDI, not to mention the notion of formal West German participation in the programme.

Herr Johannes Rau, the party's popular candidate-designate for Chancellor, maintains that Bonn's place is within Nato and its military structure. But other SPD experts are exploring the idea of a zone, free of chemical and nuclear weapons, which would embrace both Germanies—something looked upon with

much favour by Moscow. All of which adds up to uncertainty; and small wonder that interested foreign observers are monitoring so closely the eddies and tremors behind the stolid facade of West German domestic politics in the run up to the 1987 election.

Opinion polls suggest that the SPD is neck-and-neck with the CDU/CSU headed by the Chancellor, not least thanks to the appeal of Herr Rau. In fact, however, the odds must at this stage be against a Social Democrat Government here in two years time.

One reason is the lack of potential allies. The FDP king-makers always, can hardly be expected to jump horses so soon after ditching Herr Schmidt: the radical, anti-nuclear Greens, in Herr Rau's view at least, are too unreliable to be allowed into central Government—and in any case may not even clear

## IN THIS SURVEY

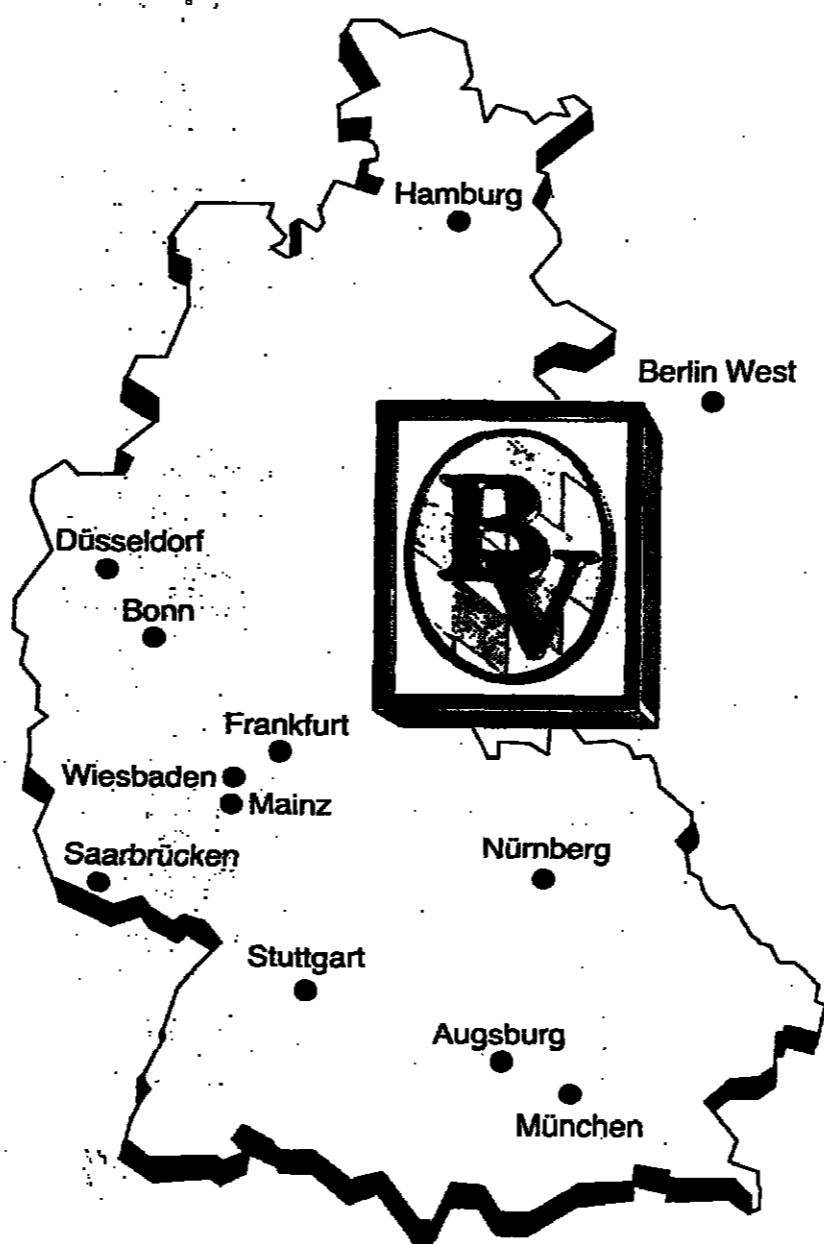
- The economy: Kohl gets his message across; key statistics ..... 2
- The political scene: elections cast a long shadow ..... 3
- Defence: regrouping among manufacturers; ties with East Germany ..... 4
- Bonn and the EEC: commitment to stronger integration; environmental issues ..... 6
- Banking and finance: an exhilarating year; stock market boom ... 7
- Industry: top 50 companies; electronics; chemicals; vehicles; aerospace; steel; machine tools; nuclear energy ..... 8-10
- West German life: the North-South issue; the media; language; fashion ..... 11-12

CONTINUED ON  
PAGE THREE

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## West Germany 2

After reaching 2.1m, unemployment is set to fall as 200,000 new jobs are created and industry searches for more skilled workers.

## Kohl getting his recovery message across

### The economy

PETER BRUCE

WEST GERMAN unemployment, at 2.1m is a post-war high for this time of the year. Earlier this month, the trade unions called thousands of their members out on to the streets. Chancellor Helmut Kohl had to make time during the parliamentary week to issue a special call for calm.

The end of West German democracy as we know it? Well, no. The trade unionists on the streets were staging the most polite series of rallies, "discussions" and distributing carefully designed and expensive leaflets to each other. Herr Kohl said little more than that he did not think it very fair that the leaflets were accusing his Government of being responsible for the scale of unemployment and invited the unions to three-day talks, for the second time this year, with employers included.

The workers, given the almost eerie absence of real rancour in the relationship with the Government, will no doubt accept.

The problem they have in attacking the Government is that the unemployment figures—which reached an all-time post-war high of 10.6 per cent in January—are really the only weakness at present in Herr Kohl's economic arsenal. His problem is getting the good news across.

West Germany will, in fact, create 200,000 new jobs this year, and since the summer industrialists have been complaining that they cannot find people to fill vacancies for skilled workers.

### Hard winter

At the beginning of this year, ministers had more reason to be worried. First quarter gross national product fell 1 per cent, largely, it seems, because of the effect freezing weather had on an already depressed construction industry and on the retail sector.

The fall forced the Government to abandon its forecast that unemployment would fall by even a modest 100,000 this year but even this has been subtly replaced recently by one that talks about the number of people in work increasing.

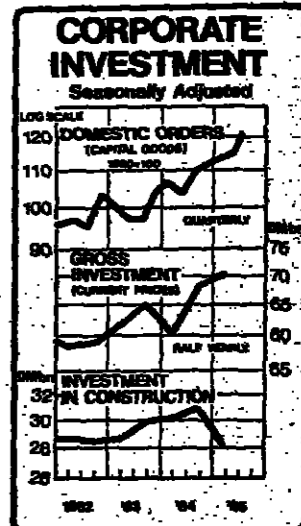
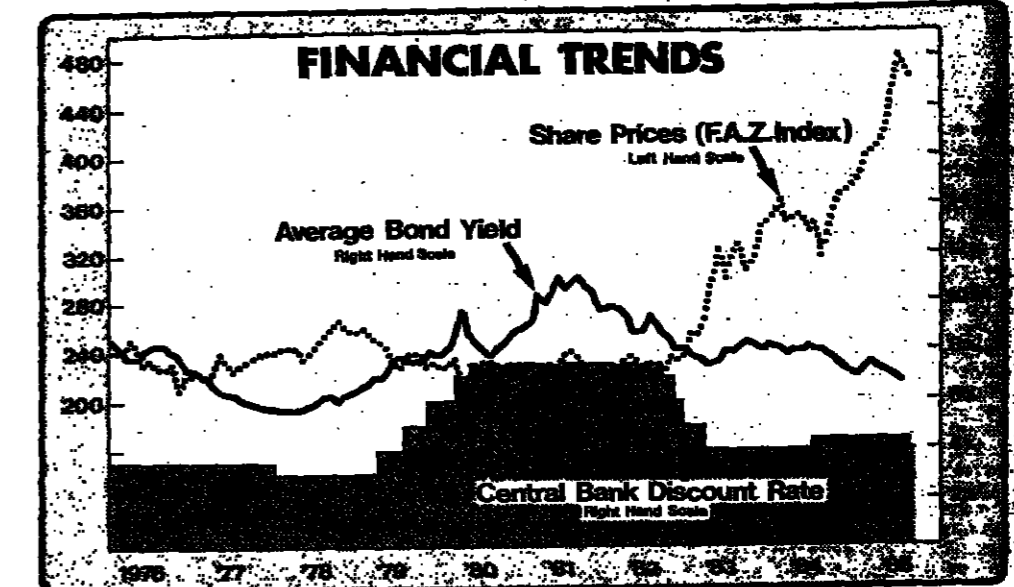
In the second quarter, however, real GNP rose 2 per cent and the finance minister, Dr Gerhard Stoltenberg, has in the past few weeks even been so bold as to suggest that GNP growth for the year might exceed government forecasts of a modest 2.5 per cent.

The factor central to this revival of confidence has been a slow, but by now unmistakable recovery in the domestic economy. For the past two years, an export boom, fuelled by the strong dollar, has been almost entirely responsible for growth.

The 1984 trade surplus, DM 54bn, was a record but it palls next to the DM 75bn surplus expected this year. The danger was that a fall in dollar against the D-mark would hurt exporters and that domestic orders would remain as flat as they had been since a mini-consumer boom spluttered in to life and quickly died in 1983.

Two things militate against that. First, although the U.S. has been the fastest growing export market recently, only 10 per cent of German exports go there and even though the D-mark had risen some 13 per cent against the dollar in the first half of the year there are signs that the goods sold into the U.S., particularly capital equipment, are probably not too price-sensitive.

Secondly, West German indus-



### More automation

This is not happening yet. Industry is expanding capacity by automating its plant, something that can easily be done in current floor space and it seems that it would take a really unique leap in industrial investment combined with a need to rehire lost workers on a scale that managements are reluctant to do, to help domestic construction orders back even to the low levels of last year.

Local authorities, another important source of construction orders, having been bludgeoned into balancing their books by the Government now seem reluctant to spoil it all by investing in grand new projects. There is little hope of Herr

Stoltenberg deviating from his previous policies by pumping Federal funds into public works, as the unions protesting earlier this month want him to do.

The retail industry is also having to wait to see whether a planned, two-stage tax reform worth DM 20bn, to be paid over next year and in 1988, will find its way not only into the pockets of consumers, but whether they will spend the money.

The Government has also failed to tackle, in any serious way, a string of structural "rigidities" it promised to do away with when it came to power in late 1982. Subsidies remain high—in fact, public aid to industry has increased under the Kohl administration.

Plans to privatise some state-owned companies have withered away and industry, angry at Dr Stoltenberg's refusal to make the DM 20bn tax cut in one stage next year, has warned that the time lag between the two will mean little more than the reform flattening out actual tax increases under the present Government.

Politically, however, the only thing that matters now, just over a year before the next election, are the unemployment figures. Should they begin to fall, thereby strengthening the impression that the domestic recovery is really taking hold, Herr Kohl will probably not have much to worry about when he faces the electorate in January 1987. His Ministers insist that such a fall is no longer in doubt, it being simply a question of when?

Until then, the opposition will, despite any other evidence to the contrary, continue to damage him with accusations that he has mismanaged the economy. It is an allegation that is becoming harder and harder to prove, which probably accounts for the fact that trade union "anger and despair" has, of late, begun to resemble little more than theatre.



Dr Gerhard Stoltenberg, Minister of Finance: leading a revival of confidence

### HOW THE OECD SEES ECONOMIC OUTLOOK

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1976 prices)

	1985 current prices DM bn	1982	1983	1984	1985	1986	1987	1988	1989	1990
Private consumption	910.3	-1.4	1.1	0.6	1.1	2	-0.3	2	1.1	2
Government consumption	325.8	-1.0	0.2	2.0	1.1	1.1	4.8	-0.1	1.1	1.1
Gross fixed investment	325.3	-4.8	3.0	1.3	2	3.1	8.2	-2.1	4.1	2.1
Public	47.4	-9.3	-2.2	-1.3	1.1	3	7.3	-2	3.1	2.1
Private residential	98.8	-4.2	4.7	2.4	-0.1	-0.1	-2.2	-11.1	4.1	-3
Private non-residential	184.5	-3.7	5.0	1.3	1.1	4.1	14.0	2.1	4.1	4.1
Final domestic demand	1,571.3	-2.0	1.3	1.0	1.1	2	2.5	0.1	2	2.1
Change in stockbuilding*	-4.7	0.1	0.6	0.7	0	0	-1.2	0.1	-0.1	0
Total domestic demand	1,566.6	-2.0	2.0	1.7	1.1	2	1.3	1	1.1	2
Exports of goods and services	539.1	4.6	-1.3	7.9	7.1	6.1	11.9	6	6.1	7.1
Imports of goods and services	501.2	2.1	0.5	5.7	4.1	5	3.4	4.1	4.1	5.1
Change in foreign balance*	37.9	0.8	-0.6	1.0	1.1	1	2.9	0.1	0.1	1
GNP at market prices	1,604.5	-1.1	1.3	2.6	2.1	2.1	4.2	1.1	2.1	3
GNP implicit price deflator	-	4.6	3.3	1.9	2.1	2.1	2.5	2	2.1	2.1
Memorandum items:										
Consumer prices†	-	5.0	2.9	2.6	2.1	2	2.2	2.1	2	2.1
Industrial production‡	-	-3.0	0.8	3.6	4	3.1	9.4	1.1	2.1	3.1

\* As a percentage of GNP in the previous period. † Actual amount of stockbuilding and foreign balance. ‡ National accounts private consumption deflator.

Table from OECD Economic Outlook, May 28 1985.

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## West Germany 3

Social Democrats face an uphill struggle in the next 15 months

## Elections cast a long shadow

## Political scene

RUPERT CORNWELL

A GOVERNMENT of little lustre, a Chancellor held in scant esteem; but both seemingly condemned to succeed. An Opposition led by the most popular politician in the country, which might again become the largest single party, yet reckoned to have small prospect of a return to power. The next Federal elections are still 15 months away, but in West Germany lead times are long, and predictions of their outcome have already acquired a distinct similarity.

The experts of course could be wrong. Between now and early 1987 Helmut Kohl and his ragged centre-right coalition may yet do enough to snatch defeat from the jaws of victory—or conceivably the Social Democrats (SPD) may then be looking sufficiently trustworthy and united to allow Herr Johannes Rau, the party's probable candidate for the Chancellorship, to turn his personal appeal to triumphant effect.

The odds, even after the SPD's stunning victory last May in Herr Rau's home state of North Rhine-Westphalia, must be against such a reversal, not least for reasons which in great measure lie outside the control of the two major parties.

Unarguably, the Social Democrats are not in better shape today than they were in March 1983, when Bundestag elections sealed the return of the Christian Democrats (CDU) and their Bavarian allies, the CSU, to office after 13 years in the wilderness.

Part of the credit goes to Herr Rau, part to the ramshackle performance of the Kohl Government, and its failure entirely to convince even in the economic field where it was supposed to hold the answers.

The crude fact remains, however, that in the ten federal elections since the birth of modern West Germany in 1949, the SPD has never won the 50 per cent needed to govern on its own. Always it has required allies, first of all in the shape of the "Grand Coalition" with the CDU between 1966 and 1969, and then, between 1969 and 1982, with the Liberal Free

Democrats (FDP). The same, barring miracles, will be true in 1987. Yet the potential allies are pretty hard to discern.

It was the FDP which, by transferring its allegiance to Herr Kohl and the CDU in the autumn of 1982, brought down the Social Democrat-led coalition of Helmut Schmidt. Today the party, in economic and social policy at least, has moved markedly to the right.

Nor is it plausible that the FDP would risk electoral suicide by jumping horses again, for the second time in less than five years. A year ago the Free Democrats' condition looked close to terminal, as they consistently failed to clear the 5 per cent hurdle necessary to win seats in state or Länder parliaments, and the European Parliament in Strasbourg.

## New FDP leader

Under an energetic new leader, Herr Martin Bangemann, the Economics Minister, things have picked up considerably. In North Rhine-Westphalia, a state where the party had always struggled, the FDP won 6 per cent of the vote last May, two months earlier, in West Berlin it scored 8.4 per cent, in the Saarland no less than 10 per cent.

The successes have emboldened it to create more mischief in the coalition; but the Free Democrats are hardly likely to bite off the hand which feeds them.

Assuming the FDP is off limits, the only other potential partners for the SPD are the radical left-wing Greens—and here even greater difficulties arise. The first of them is simply that there is no guarantee that the Greens will be returned to the Bundestag in 1987.

Until the turn of last year, the party's rise seemed unstoppable, and the Greens seemed set fair to replace the FDP as the third force in West German politics.

The party's fortunes have since plummeted. The inherent contradictions in a protest party's make-up have emerged, between those wanting no truck with the system, and those favouring alliance with the SPD. Green "own goals" have been embarrassingly numerous, while the other parties have stolen "Green" issues, like environmental protection and disarmament.

Herr Rau himself has ruled out any deal at federal level to provide the SPD with a Bundestag majority in 1987, warning that no responsible Government could place itself at the mercy of so unpredictable a grouping.

Certainly good tactics dictate such a stance. But even at a state level, the protracted, albeit apparently successful, negotiations between SPD and Greens show how difficult it is for the two parties to reach a modus vivendi. Herr Rau knows full well that prior acceptance of an arrangement at federal level with the Greens would only scare off potential moderate SPD voters, already worried about the left-wing drift of the party on security policy.

Indeed, it is the alleged "unsoundness" of the SPD on defence and Bonn's place in the western alliance with which the Christian Democrats will make great play in the forthcoming campaign. A forerunner came on the night of the North Rhine-Westphalia vote, when the Chancellor rounded bitterly on the SPD chairman Herr Willy Brandt, accusing him of "primitive anti-Americanism."

Herr Rau himself is firmly in the centre of his party, but the anti-NATO views of people like Herr Oskar Lafontaine, who captured the Saarland for the Social Democrats last March, will provide ample ammunition for CDU propaganda that an SPD Government in Bonn would play fast and loose with the country's security.

"All the time, the SPD ends up just representing the position of Moscow," charges Herr Alfred Dregger, Bundestag floor leader of the CDU/CSU. All of which, though, is of only limited consolation for the Chancellor. If the polls show the CDU/CSU level pegging with the SPD, his own standing has dropped sharply. The party's wretched showing in North Rhine-Westphalia, where it lost nearly 7 per cent from 1980, suggests that even Herr Kohl's celebrated common touch, his instinctive feel for the mood of the man in the street, may not be what it was.

He also has his own inability to hold his CDU-CSU-FDP coalition in line to blame as well. Government squabbling is nothing new in West Germany,

and inevitably worsens as elections draw near.

Even by past standards, the rancour and jealousy between the CDU and the FDP, notably between Herr Hans-Dietrich Genscher the Foreign Minister, and Herr Franz Josef Strauss, the Bavarian leader who behaves as if he were Foreign Minister, is unusual. The Chancellor has a solid 98 seat majority in the Bundestag, but often it does not look like it.

None the less the accidents this year have not had the epic qualities of those of 1984—the Kiesling affair and the resignation of Count Otto Lambsdorff, the Economics Minister, faced by charges of bribery and tax evasion. Calls for the Chancellor's head multiplied after the North Rhine-Westphalia disaster, but have abated since.

Nor is there any obvious suc-

cessor of the authority to take over so close to the next elections. Even Herr Strauss has conceded that the rival he scorns will lead the CDU/CSU into the 1987 campaign.

Herr Kohl's hole card, moreover, remains the economy. The SPD can make hay with the unemployment statistics, but the signs are that the recovery will quicken, rather than slacken next year, meaning that the Chancellor could even go into the election against a background of falling unemployment. That would be genuine success—assuming it can be sold as such. Many of the Government's difficulties stem from its failure to get its policies across. "Rau (in North Rhine-Westphalia) gets bad results and a great press, while we are getting the results but a bad press," Herr Dregger notes pithily. He may have a point.

CONTINUED FROM PAGE ONE

the 5 per cent hurdle to win seats in the Bundestag. And, by itself, the SPD has never won an absolute majority of the popular vote.

More important, perhaps, however, is the economy. In West Germany as everywhere else, elections are mostly won and lost on economic performance: the signs are that things may be coming good for the centre-right coalition at just the right moment for Chancellor Kohl.

In Bonn, his seeming lack of grasp and authority have made him the butt of a thousand unflattering jokes. The contrast between the vacuous bonhomie he radiates, and the incisiveness and prestige of his predecessor, Helmut Schmidt, is glaring. Not so long ago, in the wake of the CDU's calamitous showing in the May state election in North Rhine-Westphalia, there was excited speculation of a palace coup, to replace him with someone who looked more like a winner.

But such talk has subsided, though little thanks to an im-

## A GIANT HESITATES

be enough to bring about a fall in unemployment? The Government says Yes, pointing to estimates that over 400,000 new jobs will have been created in 1984 and 1985, and that better is on the way, now that the reservoir of short-time workers is nearly exhausted.

The Opposition and the unions disagree, and are already talking of programmes to reduce working hours, restore welfare cuts, and boost public spending. To inflate domestic demand, should it be returned to office: to which the Government retorts that it was SPD policies such as those which contributed to the recession of 1980-82 in the first place.

The battle lines are therefore drawn, and every set of unemployment statistics in the months ahead will see a new skirmish. But by and large as other polls show, West Germans generally reputed to be gloomy, pessimistic folk, are broadly happier with their lot than for many years. That, indeed may be a considerable unsung achievement of Herr Kohl—and proof that the past is not everything.

Company profits are surging ahead, private investment at last looks set to rise. So, according to most forecasters, does consumer demand, suggesting that the conservative fiscal policies pursued for three years are paying off. Critics may nicker, but they find it hard to quarrel with the Government's basic contention that a genuinely sustainable upswing is already under way.

All of which of course still leaves unanswered the key question: will the improvement

PERSONALITY PROFILE: ALFRED DREGGER OF THE CDU/CSU

## A politician who speaks his mind

WHATEVER ELSE, Alfred Dregger, floor leader in the Bundestag of the CDU/CSU parliamentary group has one virtue not always to the fore in West German politics: at least you know where he stands.

His critics, and they are legion, regard him as a creature of the distant right of the conventional political spectrum. But the man himself would describe his views as no more than honest patriotism—certainly not the most comfortable virtue in post-war West Germany, but which he has described as "a feeling as natural as love for the family."

Not surprisingly, in this year of bitter anniversaries and awkward memories, those views have been rarely out of the headlines: the insistence that 40 years after the end of World War II, the German question remains open, the utter commitment to Bonn's alliance with the U.S., his public attack on the Washington Senators who had the temerity to oppose President Reagan's visit to Bitburg Cemetery where 47 former SS soldiers were buried, the sympathy for the cause of the Vertriebene, the Germans up-

rooted from the East after 1945. But the embarrassment that may have been caused, and the controversy, have left Herr Dregger unrepentant.

If so, then that may in some measure be put down to the traditional forthright simplicity of the old soldier. Dregger was born in 1920, and war arrived before he could go to university. Instead he rose by 1945 to the rank of captain and battalion commander, and in the fighting was wounded four times.

Today, at almost 65, he still has the looks, cut and crispness of the military man. He was born in Münster in Westphalia, but has little of the sentimentality and ponderousness counted as the usual virtues of Westphalians.

**Straightforward** Herr Dregger is no less straightforward when it comes to domestic politics. Germans can be proud of their country, he says—"we have the most successful Government in Western Europe"—and reels off a string of statistics to prove the point.

For the post-Schmidt SPD he has little time, and least of all predictably when it comes to

foreign and security policy: "The Social Democrats just end up by representing the positions of the Soviet Union," whose encroachment to the Elbe he sees as the central tragedy of our times.

To portray him merely as a simplistic sloganiser would be wrong, however. The Dregger style may be mocked by the Left, but clearly a large chunk of Germany's silent majority likes both the style and the substance.

He was elected Mayor of Fulda in Hesse in 1956, and in the process became the youngest mayor in the country, at the age of 35. He gave up the job in 1970, but still spends weeks when the Bundestag is not sitting dealing with constituency affairs in the town, just a few miles from the East German border.

It was during the 1970s that Dregger made a national name for himself, by turning the Christian Democrats into the largest party in Hesse, a state hitherto dominated by the SPD.

By the Land election of 1982, it seemed as if the CDU might take power there, in alliance with the Liberal FDP. But a

few days before, the Free Democrats deserted Chancellor Schmidt in Bonn, and charges of treachery and a potent Hesse backlash dashed his chances, by all but obliterating the FDP in the state.

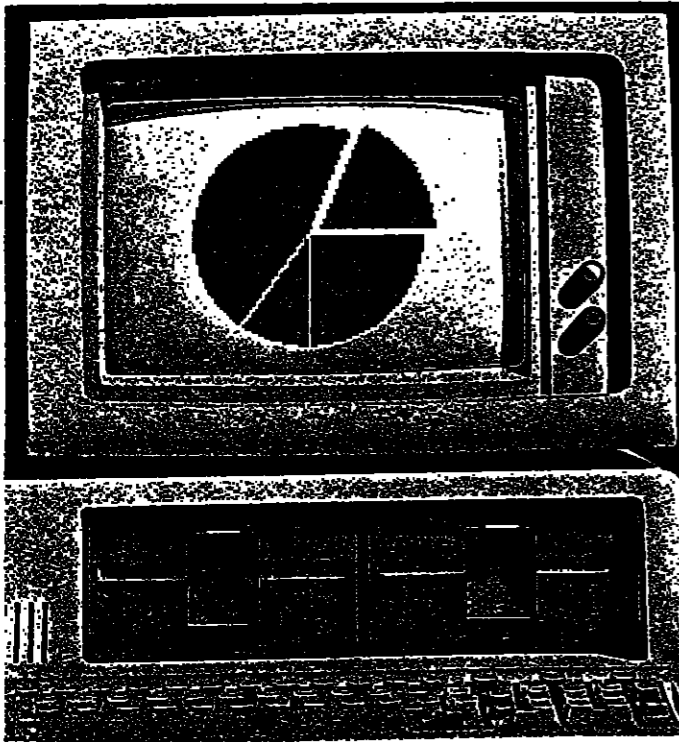
The setback however was brief. Helmut Kohl took over as Federal Chancellor that October, and Dregger, with whom Kohl has an excellent working relationship, stepped up to be CDU/CSU floor leader.

The post is of key importance, "the second most influential after that of Chancellor," Dregger himself calls it. It is also one which requires a good deal of backroom savvy, both in keeping the squabbling CDU and CSU in some kind of rank, and working with the ever sensitive Free Democrats, Kohl's touchy supporters in the coalition.

Early in 1987, elections come round again. But despite speculation of a summons to Cabinet Office, Dregger makes clear he intends to stay where he is—assuming he is asked. For all the abuse his enemies heap upon him, there can be small doubt he will be.

RUPERT CORNWELL

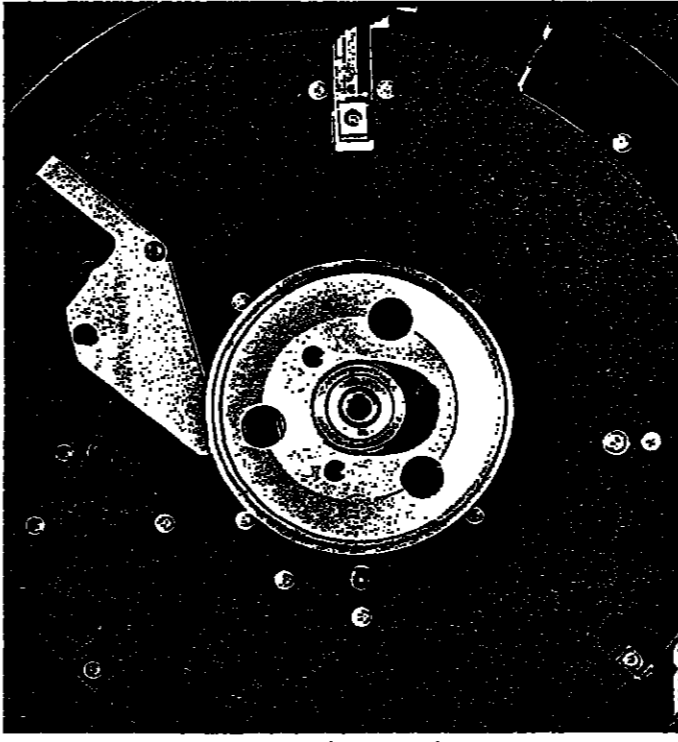
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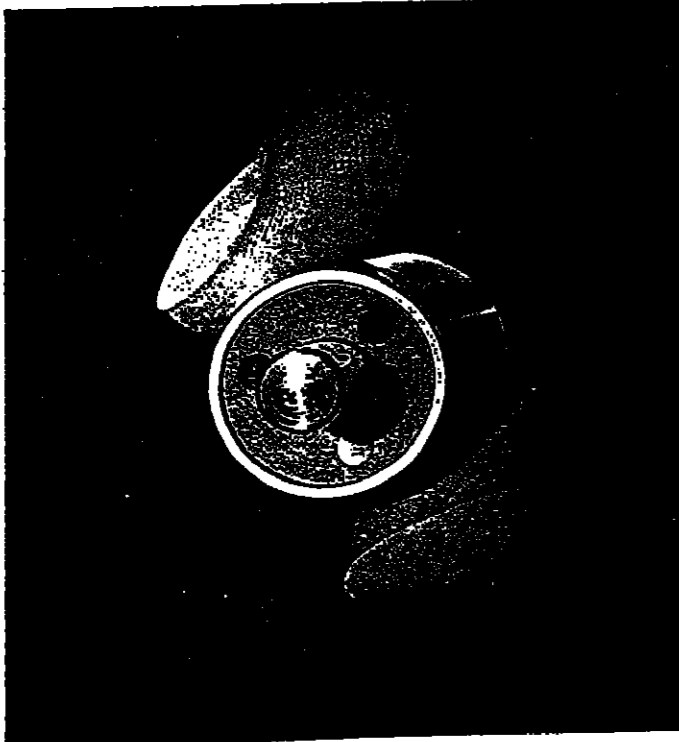
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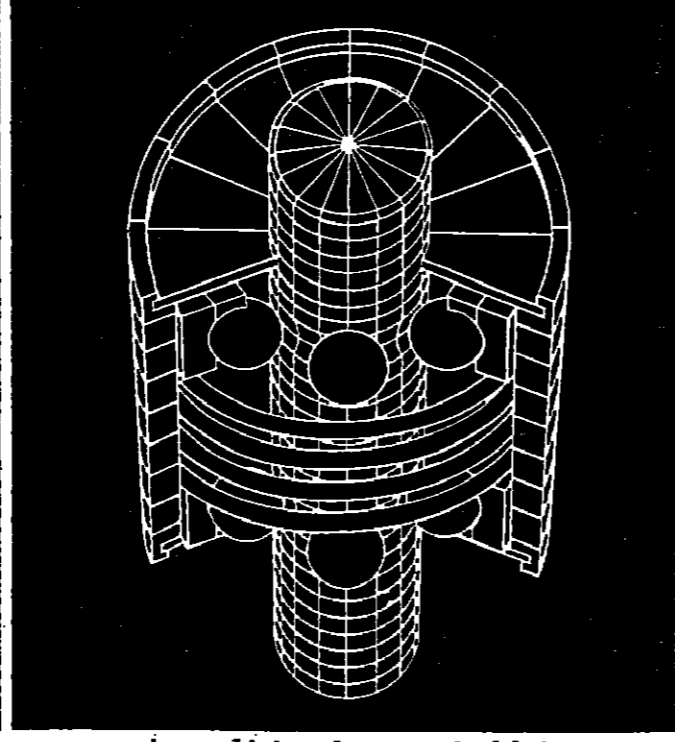
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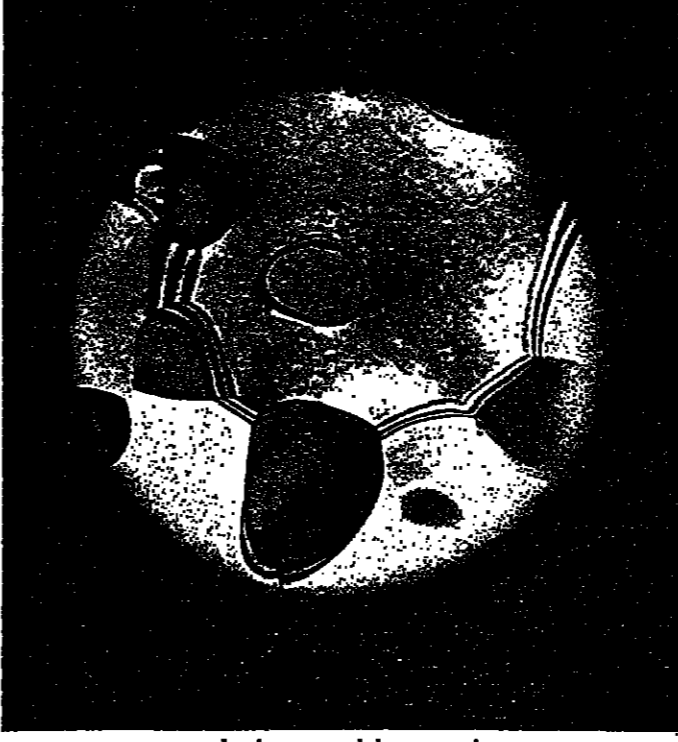
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## West Germany 4

A look at the regrouping in the industry

# Why the giants are chasing the cash-hungry producers

## Defence

PETER BRUCE

AT THE END of September, about two weeks before Daimler-Benz pulled off West Germany's biggest takeover, paying more than DM 1.6bn (\$801.5m) for control of the AEG electronics group, stock market brokers in Frankfurt had got wind of something. The rumour was that Daimler was going to buy AEG's DM 1.4bn a year defence business—mainly high frequency communications technology.

Not for the first time, the brokers got it wrong. Daimler bought, or is trying to buy, the whole group but the fact that the stories were believed by a lot of people who watch the defence business, and that they thought even the less spectacular purchase made sense, is important.

West Germany's defence industry is regrouping. Smaller, cash-hungry producers are being swept up by richer giants. It is still impossible to say, however, whether the shifts in ownership are themselves defensive or the prelude to something more dramatic.

Before setting upon AEG, Daimler had already this year bought complete ownership of MTU, the country's only aero engine builder, whose major business over the past few years has been supplying engines for

the Tornado fighter. Then it bought control of Dornier, Germany's second biggest aircraft concern and also a major defence electronics contractor. At the same time Messerschmitt-Bölkow-Blohm (MBB) effectively took control of Krauss Maffei, manufacturers of the highly regarded Leopard 2 main battle tank.

In all these takeovers declining military order books have been important. Leopard 2 production expires in 1987, as should output of the Tornado. In Dornier's case, the company was wracked by internal managerial strife but its military business too had been on the wane.

Many of the medium-sized defence equipment producers are having to ask themselves whether it is worth remaining in an industry in which more weapons are being produced in multinational ventures, meaning fewer orders to go around the country's 38,000 defence suppliers.

The trend towards "super producers" seems inexorable, and those who remain independent, like Diehl—a major ammunition and accessories supplier—are diversifying into other civilian technologies, including computers.

There also exists, however, the lingering hope among all defence contractors that Bonn will finally raise the 30 year-old barriers on arms exports and let the industry loose on the rest of the world to compete with the U.S., Britain and France.



Manfred Woerner, the Defence Minister: under pressure from the Government to reduce costs

German governments have consistently stuck to a policy of not allowing their arms producers to sell weapons into "areas of tension" (the Middle East, for example). But the Kohl Government has altered this—it now talks of the need to sell arms in order to protect vital Western interests though it has done nothing to implement it—and some producers are delaying decisions about

their future to see whether the sentiment holds water.

If the Government, in the face of certain Israeli pressure, goes ahead and allows Rheinmetall to supply a DM 80m artillery and tank ammunition plant to the Saudi Arabians it will mark a fundamental break with the past.

For Bonn's military planners, there would be important advantages in both the defensive move towards fewer, and bigger contractors and in an aggressive opening up of export opportunities which might encourage smaller producers to stay independent in the industry.

Herr Manfred Woerner, the Defence Minister, would probably like to see the industry remain much as it is—a fragmentation does reduce the risk of monopoly—but time is not on the side of the producers and Bonn will take a long time before giving the nod, or otherwise, to the Saudi deal.

Herr Woerner is also under pressure, from his Government to reduce costs and from Nato, particularly the U.S. colleagues, to increase real spending. Herr Gerhard Stoltenberg has cut the Federal Government's deficit from nearly DM 40bn to around DM 25bn since 1983 and the Defence Ministry has had to slow down its spending along with almost every other department.

The defence budget for next year envisages an increase in spending of just 2.6 per cent, and although this will push

the total budget past DM 50bn for the first time since the Bundeswehr was founded in 1955, the increase is a far cry from the 8.2 per cent of 1981 and less than half the increase in 1983.

Luckily, trimming the increases has coincided with a sharp fall in inflation in the past few years—it now stands at about 2 per cent—meaning that Herr Woerner has been able to argue in Nato that Germany is increasing spending in real terms in order to be able to fulfil its commitments to the alliance. If that were not enough, the Defence Ministry argues, it has also shouldered a political burden and set in motion legislation designed to increase the length of national service.

Some observers, excluding the more obvious critics, have suggested that the Government might be overreacting in its determination to increase the length of national service from 15 to 18 months after July 1989. But the military have been alarmed at the effects the country's rapidly declining birthrate could have on manpower through the 1990s and power through the next century—an increase in long-serving volunteers has helped push the standing army up to some 260,000 men but in ten years time it is expected that the number of recruits will have fallen from 300,000 this year to 160,000.

The Defence Ministry has argued that the longer military

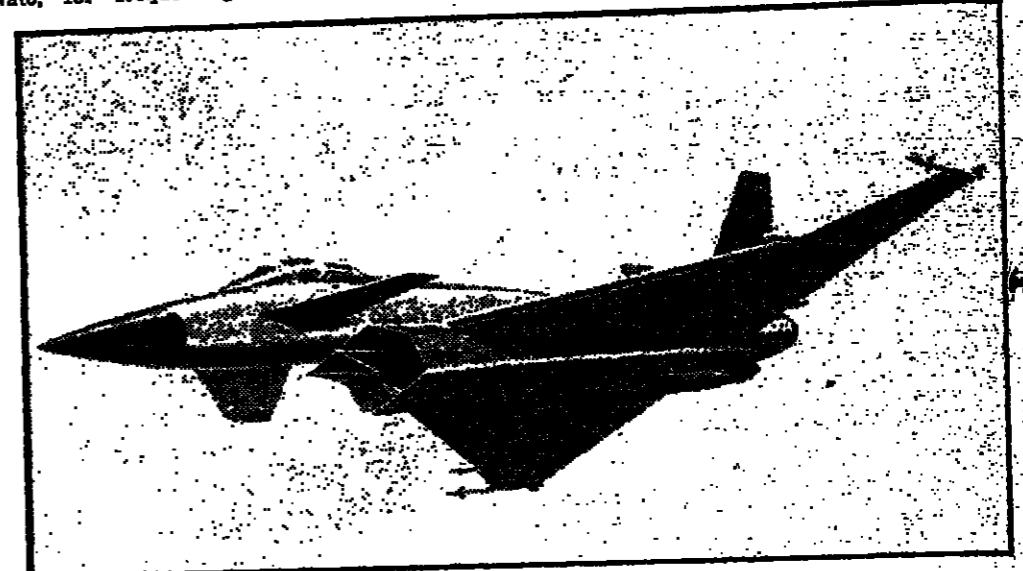
service, and a general tightening up on exemptions, is the only way to keep total strength at the required 495,000 men, and the Government, a year ahead of what promises to be a tough election, is highly unlikely to even think out loud about drafting women to help make up the numbers.

Fortunately for the military, Herr Woerner appears to have recovered from a personal disaster of his own making in early 1984 when he sacked, without checking evidence which soon turned out to be false, General Guenter Klessling, deputy supreme commander at Nato, for frequenting homo-

sexual bars. Herr Woerner probably came closer to resigning than any other minister in this somewhat clumsy Government, but his political recovery has been so strong that he has been able to fight off attacks from Herr Franz Josef Strauss, the powerful Bavarian leader, for trying to pension off older officers early to clear a bottleneck that was frustrating junior officers and to begin engaging in a unique military relationship with the French.

This has slightly unsettled Bonn's Nato partners. French and German troops held their first joint manoeuvres since

World War II this year and another is planned for 1986. Neither the minister nor his seniors have done anything to dissuade French leaders from muttering about extending France's independent nuclear umbrella to cover Germany. Bonn and Paris have split on supporting the U.S. strategic defence initiative (SDI), but Herr Woerner's expressions of support for a "European Defence Initiative" (EDI), which would develop technology to shoot down, from space, East bloc medium-range missiles, have much to do with wanting to draw the French into closer alliance.



Fighter of the future: an artist's impression of MBB's design for a combat aircraft of the 1990s. There is a relentless trend in the defence industry towards "super producers" with major suppliers further diversifying into high technology areas. Military planners also see advantages in fewer but larger contractors

## Soviet coolness hinders moves to more accords

### Ties with East Germany

LESLIE COLT

THE EAST GERMAN leaders are far from happy with the conservative-led coalition Government in Bonn but they are making the best of the situation while wooing the opposition Social Democrats (SPD). The Christian Democrats (CDU), for their part, have managed to continue the process of give-and-take with East Berlin which was begun by the SPD under Willy Brandt in the early 1970s.

A visit to West Germany by Herr Erich Honecker, the East German leader, may even become feasible next year, after the visit planned for September 1984 was cancelled under strong Soviet pressure.

Before Herr Honecker will be permitted to go, however, the Soviet Union, will want to improve its own cool relationship with Herr Helmut Kohl's Government in Bonn. But Moscow's efforts to isolate the Bonn Government diplomatically, while courting the SPD, have not prevented the two of detecting any would-be escaper.

The Bavarian politicians said Herr Strauss had also promised that more East Germans would be allowed to join their relatives in West Germany. The Bonn Government expects that about 20,000 East Germans will be permitted to emigrate this year. This is only half last year's wave of migrants but more than the average in recent years.

In the first half of this year more than 33,000 East Germans below retirement age were able to visit West Germany on urgent family matters—some 18 per cent more than in 1984. But in recent months the growth has subsided, indicating the erratic progress that often occurs in inter-German relations.

While visiting the stand of the West German chemicals company Hoechst at the Leipzig Fair, Herr Honecker told Herr Han Otto Brütigam, the West German permanent representative in East Berlin, that relations between East and West Germany had developed "rather nicely" and noted that trade between the two would exceed DM 15bn this year.

Things were "beginning to move" in the field of joint industrial co-operation, said Herr Honecker. But if the tension between the two Super Powers was not alleviated it would have a negative effect on relations between Eastern and Western Europe, he warned. Undoubtedly, the outstanding visit to East Germany this year was made by Herr Willy Brandt, the leader of the SPD, who was obliged to resign as Federal Chancellor in 1974 after one of



Erich Honecker, the East German leader: tension between the two superpowers is affecting relations between East and West Germany

his aides, Herr Günter Guillaume, was exposed as an East German spy. Herr Brandt and Herr Honecker agreed at their talks late last month that in November their respective parties would begin negotiations on the creation of a zone free of nuclear weapons in Europe. The announcement appeared to indicate that the SPD would be prepared to take a quantum leap in its relations with East Germany if it was returned to power in Bundestag elections in 1987 but it was far from certain that the SPD in government in Bonn would have the freedom to act as it did while in opposition.

Herr Brandt, like Herr Strauss, came away from his talks with a promise from Herr Honecker more East Germans would be allowed to visit their relatives in West Germany on urgent family matters.

East Germany, together with Czechoslovakia, last month sent a letter to the West German Government proposing negotiations on a zone free of chemical weapons in Central Europe. Earlier this year the East Germans and the SPD in Bonn had drafted an agreement for just such a zone, to include at least East and West Germany and Czechoslovakia.

A CDU spokesman in Bonn called the Honecker proposal unacceptable and argued that it would undermine the Geneva talks on an internationally verifiable ban on chemical weapons which was supported by West Germany.

Officials in Bonn are optimistic, however, that an agreement can be reached soon in the long-drawn-out negotiations on a cultural agreement with East Germany. They began in 1978 but East Germany refused to accept West Berlin in such an accord and demanded that a number of art works belonging to the Prussian Cultural Foundation in West Berlin be returned to their pre-1945 location in East Berlin.

A visit by Herr Honecker to West Germany is believed to be unlikely until a cancelled visit last May by the president of the East German parliament, Herr Horst Sindermann, can be rescheduled.

The visit was called off when the CDU president of the Bonn Bundestag refused to meet Herr Sindermann in the East Berlin parliament building because the latter did not represent a freely elected legislature. A CDU spokesman said recently, however, that it was possible that Herr Sindermann could be received in the Bundestag under certain conditions.

Three conditions included the establishment of direct contacts between East and West German representatives down to local council members. This will not be easy for East Germany, as it has resisted such contacts since the early 1980s. Before then it actively supported the idea of a reunited Germany and eagerly sought "all-German" contacts at every level.

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## Commitment to stronger integration

### Bonn and the EEC

RUPERT CORNWELL

WHICH IS the real German European?

Is it Herr Ignaz Kiechle, the Agriculture Minister, who in June used for the first time Bonn's right of veto to block a proposed cut on Common Market grain prices?

Or is it Chancellor Helmut Kohl, who a fortnight later made a Bundestag address which probably rates among the most passionate declarations of Europeanism from a West German leader?

He pledged not only to work for an increase in EEC majority voting but produced an impromptu Franco-German initiative for a Treaty of European Union to be submitted to the European Council in Milan the next day.

The answer, quite simply, is both. The cereal veto was merely proof that Bonn was as ready as anyone in the Community to stand up for a vital national interest.

It was also a subtle reminder of a German feeling of distinction with the Community as it then functioned. If others could trouble, then why not Bonn, which is the largest net contributor to the EEC's finances?



Ignaz Kiechle, the Minister of Agriculture: a European but ready to stand up for a vital national interest

Herr Kohl's idealistic statement of European intent was the other side of the same coin: West Germany's impatience with the status quo and its belief that things could go on no longer, especially on the eve of enlargement of the EEC from 10 to 12 members.

It also illustrated the Chancellor's feelings towards the Community. It showed his conviction that only a more integrated Western Europe could offer an outlet for his country's complex aspirations and anchor it firmly in the West and his belief that close partnership between Paris and Bonn is a crucial sustaining force for the EEC. It also brought out Herr Kohl's fondness for generalities at the expense of practical detail.

The Milan summit turned into a mess largely as a result of that eleven-hour proposal from France and Germany—and the understandable pique from London at seeing its own more practically worded blueprint for EEC progress. But tempers have now subsided.

With good grace and little choice, Britain has come round to the idea of an inter-Governmental conference to map out the path to a more united Europe. Bonn officials, meanwhile, have completed a package of proposals that would put flesh on ideas in time for the important EEC council meeting in Luxembourg in early December.

But what does West Germany want?

One strand in the skein of ideas, proposals and dreams may be labelled "European Union." The term as used by Chancellor Kohl last June referred to ensuring in Treaty form the foreign policy co-ordination of EEC member states, one of the most successful and smoothly functioning parts of the Common Market.

The Germans say they would like to go further in the security field, though this is complicated by uncertainties over what might emerge from talks over greater military co-operation between Bonn and Paris, and increased French interest in the defence of West Germany in European conflict.

In the meantime, the most evident symbol of the desire for integration has been a reduction—sometimes less than noticeable—in cross-border customs checks between Ger-

many, France and their Benelux neighbours.

Bonn's commitment to greater technological collaboration has been proved by its enthusiastic endorsement of the Eureka scheme. West Germany will host in Hannover next week the ministerial conference of the 17 countries participating, which should see the venture take firmer shape.

But how much money the Federal Government will provide at this stage is still in doubt.

Meanwhile, after failure last June to force into EEC law tighter controls on vehicle exhaust pollution, West Germany is pressing for more

meaningful action to protect the environment, an issue in Bonn of huge political importance.

Bonn also wants to see institutional progress within the Community, most notably by an expansion of the role of the European Parliament. It is seeking a greater readiness than on the part of some EEC members like Britain to secure changes in the Treaty of Rome to encourage more majority voting.

The cereal price veto, officials here argue, was less a case of hypocrisy than of West Germany using the options to protect its national interests.

More problematic is the country's attitude to the other great

area of debate within the Community—how best to create the genuine internal common market for industrial goods and services which the 1957 Treaty laid down but which in many respects has remained a dead letter.

Bonn is in the forefront of the campaign for change, and rarely loses a chance of advertising the free market principles said to guide the management of its economy. However, West Germany has dragged its heels in a variety of cases, ranging from banking and insurance to air transport.

In the related field of monetary policy, West Germany says that along with Britain it is virtually alone in the EEC in having dispensed with exchange controls.

But the Bundesbank is among the most sceptical and reluctant when it comes to a real widening of the role of the Ecu (European Currency Unit).

Latest measures to liberalise the country's financial markets have had less to do with ideological conversion than the realisation that if nothing were done, Frankfurt might lose ground to London, New York and other more enlightened financial centres, which have already moved with the times. Here, as elsewhere, Bonn's sincerity remains to be proved.



Leaders of the Western Economic Summit at the opening session of talks in Bonn last May. Round the table are President Reagan and from his left Italian Prime Minister Craxi, Canadian Prime Minister Mulroney, President Mitterrand, West German Chancellor Kohl, Mrs Thatcher, the British Prime Minister, President of the Commission of the European Communities Delors and Mr Nakasone, the Japanese Prime Minister

Reports of dying forests and contaminated water arouse alarm.

## The pollution problem remains an important political issue

### The environment

JOHN DAVIES

FEW PEOPLE take the environment as seriously as the West Germans. They are already spending big sums on cleaning up their country and constantly debate whether they should do a lot more.

No politician in West Germany can afford to appear indifferent to the pollution problem and no industry or company can lightly shrug off accusations of pollution.

With the cloud of recriminations now dispersing, however, everyone seems to agree that some progress has been made. The Bonn Government, with the backing of the car industry, is encouraging motorists to switch over voluntarily to "environment-friendly" cars more quickly than they are compelled to by law.

Germans can now make a "personal contribution" to saving the forests and cleaning up the atmosphere, Herr Zimmermann says in an appeal to the motorists' conscience. To spur this process, the Government has changed the fuel tax to ensure that lead-free petrol is cheaper than the traditional kind. Other tax measures are also being taken to provide financial incentives for the environment-conscious driver.

The Government has already enacted a law to reduce pollution from coal-fired power stations and other large furnaces. Electricity supply companies throughout the country are investing small fortunes in desulphurisation filters at most of the coal-fired power stations and promise to shut down the others.

More recently a new law to tighten pollution controls over a wide range of industry has been passed under debate. Under these proposals, companies will have between three and 10 years to bring their existing plants up to certain emission-control requirements.

Herr Zimmermann estimates that this new law will require companies to invest about DM 10bn by installing filters and taking other anti-pollution measures. This should create about 22,000 new jobs, he claims.

All this amounts to big business for concerns supplying equipment and systems to re-

duce emissions. Pollution control is now a growth industry in West Germany, although quite a few companies are already in the market.

Recent technological advances have opened the way more readily to environmental protection, but many people, notably the Greens, are still far from satisfied with the rate of progress.

The Social Democratic Party (SPD) has also become more vocal and wants to see a more "integrated" concept of pollution control. This means that polluting substances should be avoided in production processes whenever possible.

It also means, the SPD says, that the public's "disposable" habits should finally give way to "recycling" habits.

The SPD, and above all the Greens, have been critical of the huge chemicals industry, which has been trying for some time to present an image of responsible concern about the environment.

The chemicals companies claim, for instance, that they have doubled their output in the last 10 years but reduced the volume of emissions by at least a third.

One company executive challenged a well-known West German journalist to join him for a swim in the Rhine to prove that the river was free from

pollution. More recently, however, the Greenpeace organisation has disputed claims that the Rhine is cleaner.

Hoechst, with its headquarters and vast chemicals complex near Frankfurt, has been engaged in a running battle for years with the local Greens. Some Green activists have even made it a practice to turn up at the company's annual shareholders' meeting to argue their case.

Hoechst has reacted with dismay at the prospect that a Green politician might actually become Environment Minister in the Land of Hessen. This has seemed possible for some time as the Greens and the Social Democrats struggled to reach some agreement about close co-operation.

Meanwhile, the food and drinks industry is coming under attack by the environmentalists, who want to reduce the number and volume of throw-away containers.

The Bonn Government has been trying to get the food industry to do this voluntarily but has expressed disappointment at the apparent lack of results.

Now the environmentalists have been organising protests and there has been increased talk about regulations to ensure that more foods and drinks are sold in re-usable containers.

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## West Germany 7

Many banks have seen a boom in securities trading and foreign exchange transactions.

## Profits rise after exhilarating year

## Banking sector

JONATHAN CARR

THE banks in West Germany are coming to the end of an exhilarating and exhausting year. Rarely have so many chances and challenges emerged in so short a time span. The bankers can be forgiven for hardly knowing whether they are on the crest of a wave or caught in an avalanche.

Taking the "bottom line" first, 1985 seems certain to be another year of marked profits increase. Many banks have seen a boom in their own-account trading in securities and foreign exchange and they have also benefited from a recovery in their interest margins (the difference between interest earned and paid) after early setbacks.

Moreover, there has been no new, major flareup in the international debt crisis which would compel the banks to add greatly to their already copious risk

provision; at least there has been none so far, a point to be returned to at the end of this article.

In sum, if a lot of the banks do not boost their dividends for this year, armies of shareholders will be hotly demanding to know the reasons why.

The background to this profits rise, which is stronger than could be expected even six months ago, is steady domestic economic recovery (with about 2.5 per cent real increase in GNP for the year), low inflation (little more than 2 per cent at an annual rate), generally falling interest rates and a booming stock market.

The Bundesbank, the central bank, faced its well-known dilemma—how to coax down domestic interest rates to help support economic growth, without encouraging a capital outflow (notably to dollar assets) which would markedly weaken the D-Mark.

It solved it with a combination of sophisticated, relatively noiseless, open market operations—culminating in August in a cut in its key discount and Lombard rates by 0.5 per cent

each, the former to 4 per cent and the latter to 3.5 per cent.

But the central bank was only able to take the action because Germany's economic "fundamentals" (current account, inflation rate etc) were improving and investors tended increasingly to see the D-Mark as undervalued.

All that clearly counts on the positive side for the banks this year; but the impact of another key development—namely the Bundesbank's action to liberalise the capital market further—is much more mixed.

## Bundesbank approval

Since the start of May the central bank has given the green light to an array of financial innovations, including floating rate notes, zero coupon bonds and dual-currency instruments, which it had previously opposed. That naturally gives the German banks more strings to their bows—though it cannot be said that dramatic use has been made of this new weaponry so far.

It also helps bolster the position of Germany, above all

Frankfurt, as a financial centre against London, New York and Tokyo; and that in turn, on balance, should help the D-Mark which is why the Bundesbank has actively pursued the "liberalisation" path.

The moves mean German banks will in future face more foreign competition on their home ground. This can be seen most clearly in the break-through this year, according to foreign banks resident in Germany, the right at long last to lead-manage foreign D-Mark bond issues. Moreover, if the Bundesbank also gives its blessing to the use of Certificates of Deposit (CDs), as seems possible, this development on balance could prove more useful to foreign banks in Germany, rather than to the big German banks with their branch networks and army of time depositors.

On top of that the "liberalisation" has underlined several Germanies. The most obvious one is the Börsenumsatzsteuer or stock market stamp duty—a levy which means that, for example, trading in floating rate notes in Germany is

hardly profitable.

In consequence, most of the trading goes on in London where no such levy is applied. Bundesbank and commercial banks have appealed to the Bonn finance ministry to abolish the duty, but so far without discernible result.

All the same, it might seem fair to ask whether the German banks cannot well afford a bit more foreign competition at home. After all, there are close to 5,000 of them with around 45,000 offices scattered across the country; they have close, often historic, links with industrial and personal customers; it is a market which has been, and remains, very hard for non-Germans to penetrate.

That is true—and yet the German banks have no grounds at all for complacency.

For one thing West Germany is already not simply heavily banked but in some respects "over-banked" and competition between the different groups, regional banks, savings banks, credit co-operatives and so on is intense.

For another thing the banks as a whole face new challenges at home, for example from retail outlets and even insurance companies eyeing the "financial services" business hungrily. The threat from this quarter is not yet intense, but it is uncomfortable.

Moreover, all these changes have to be faced in the tougher legal context of a revised Banking Act which took effect this year. The revisions mean the banks have to meet stricter capital-to-lending ratios, and face tighter limits for individual large-scale loans.

## Top Ten Banks

Ranking 1984/1985	Banks	Balance sheet totals (DMm)	
		1984	1983
1 (1)	Deutsche Bank	222,200	210,200
2 (2)	Dresdner Bank	174,723	160,534
3 (3)	Westdeutsche Landesbank	141,494	135,737
4 (4)	Bayerische Vereinsbank	134,160	115,530
5 (5)	Commerzbank	122,687	113,250
6 (7)	Bayerische Hypotheken- und Wechselbank	105,137	97,144
7 (6)	Bayerische Landesbank	104,825	100,463
8 (8)	Norddeutsche Landesbank	88,178.9	83,653.1
9 (9)	DG Bank	83,240	77,665
10 (10)	Kreditanstalt	75,538	72,744

(NB—All figures refer to world group balance sheets)

Source: Schmecke—Die Grossen 100.

Nor do the banks need any reminding that the happy constellation of events in which they have boosted profits in 1985 could easily change—perhaps even be reversed—in 1986. The hope, of course, is for a "soft landing" for the dollar and continued economic growth at home, even if the German export boom fades.

The fear is of a slacker U.S. economy combined with budget deficit-induced higher interest rates there. That would tend to drag German rates up too, dampen domestic growth, and intensify the international debt crisis. That vision is far from inevitable—but it still serves to dampen spirits a bit, even as 1985 profits rise.

## Rush for new issues as prices soar to record levels

## The Stock Market

JONATHAN CARR

WHOEVER SAID the West German stock market was dull? This year share prices have been soaring to record heights; investors seem to have come close to blows as they struggled for a slice of some enticing new issues; and, to cap it all, legal and organisational reforms are in the making which should bolster the stock market still further.

That is all true as far as it goes but some qualifications need to be made all the same. In the first place there is an almost ideal economic environment and if most German stocks had not surged this year then the likelihood is that they never would.

Exports have continued to boom (helping pile up a visible trade surplus which will probably exceed DM 70bn this year); domestic demand for capital goods has been picking up at last; the inflation rate is little over 2 per cent; banking profits look set to reach record heights—and even the crisis-ridden building industry looks likely to produce some better news before long.

Small wonder that by mid-October the Commerzbank share index had climbed to a high of 1,680.60 (compared with a low for the year of 1,111.50) bolstered by buoyant performances from most sectors including electricals, chemicals and vehicle manufacturers.

Perhaps the AEG share symbolised the bullish mood best.

In mid-October it jumped past the DM 200 mark, compared with a historic low of DM 22 in 1982 as the ailing electricals giant sought court protection from its creditors. True, the main surge came on word that AEG was being taken over by Daimler-Benz—but the takeover itself was a tribute to the way AEG had pulled itself back from the depths.

A lot of the market's impetus has come from buying by foreigners who, not for the first time, seem to have a rather more confident view of Germany's economic prospects than Germans themselves do. Moreover as the year wore on the D-Mark increasingly looked like a candidate for appreciation—not just against the U.S. dollar but, later, against the other currencies in the European Monetary System.

## Bonuses hopes

In other words foreign investors in German assets including stocks could legitimately hope for a bonus on the currency side before long. This was surely one reason why foreigners plunged a net DM 3.5bn into German shares in May-July, compared with DM 2.4bn in the three previous months.

They also invested DM 10bn in German bonds compared with the previous record of DM 9.2bn in the last quarter of 1984.

The odd thing, and the second qualification to be made about the stock market this year, is that not more companies chose this highly favourable period to "go public."

Moreover, some of those which

did so seemed surprised by their success.

Henkel, for example, the country's fourth biggest chemicals concern, chose to issue 1.5m non-voting preference shares (the first public issue in the family-controlled company's history) at DM 985 apiece. Perhaps it would be fairer to say Henkel's advising banks proposed DM 235. At any rate the shares were immediately traded at close to DM 400—as might have been suspected for "rare" stock in a solid concern with improving profits and good growth prospects. Little venture, little gain!

Other noteworthy new issues include Springer, the publishing group, Trinka, the bank, and Kugelfischer, the engineering concern, but overall the year looks set to bring far fewer stock market entrants than the record 21 of 1984.

Moreover, for comparison's sake, it is worth noting that the number of new issues in the U.S. last year totalled 448 and in Britain 192. In other words, without underestating the progress made in the past year or two, the German stock market still has a lot of leeway to make up.

Two parallel moves are under way which should help matters. In one, the eight German stock exchanges are gradually edging towards changes which could eradicate anomalies, cut costs and duplicated effort. The accent there is on the word "gradually."

While only two of the exchanges—Frankfurt and Düsseldorf—have a sizeable turnover (making up about 80 per cent of the total turnover of the 8 exchanges last year), all of

them are proud of their traditions and independence.

There is thus no question of centralising all the business, or even of eliminating any single exchange. But there are prospects of improving co-ordination and streamlining to help the Germans better face the challenge posed by London, New York and Tokyo.

The second move is being made by the centre-right government in Bonn which has long underlined its desire to promote an active stock market, although its continued retention of the stock market turnover tax tends to work in the opposite direction.

At any rate the Government is pushing through a "Börsenanzulassungsgesetz" (Stock Exchange Admission Act) aimed at making it easier for small and medium-sized companies to boost their capital base through public share issues.

So far the German market has consisted of three tiers. The top-one is an official stock exchange listing, which involves costs, documentation and other hurdles which smaller companies cannot easily surmount.

On the other hand trading on the other two tiers—the over-the-counter and the unofficial markets—is not covered by the provisions of the existing Stock Exchange Act and thus involve more potential hazards for investors.

The Government's aim now is to create a so-called "regulated market"—in effect an unlisted securities market—below the top tier but with legal safeguards. The danger is that the result may be a "rev" complex—but undoubtedly the Government's aim is in the right direction.



Someone has to be joking on the busy trading floor of the Frankfurt Stock Exchange

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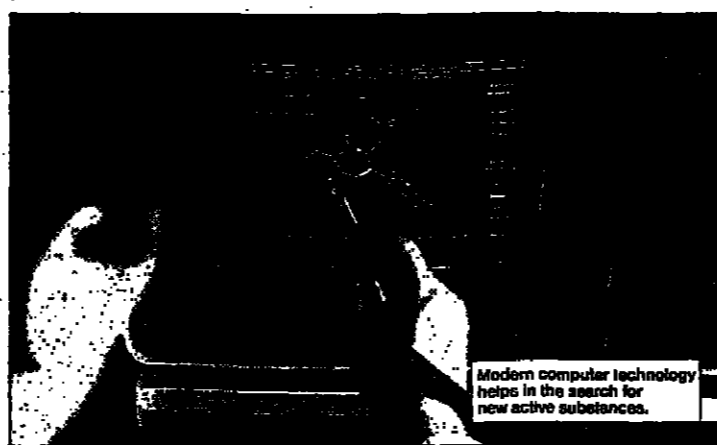
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## West Germany 8

Determined efforts are now being made to catch up with the U.S. and Japan

## Renewed emphasis on automation

## Electronics

JOHN DAVIES

CAN AN old dog learn new electronic tricks? The West Germans are hard at work proving to the world (and to themselves) that they can.

After agonising about the bravura of the Japanese and the Americans, the West Germans have redoubled their efforts in electronics and now put on a more confident show.

Many industrial companies are applying electronics increasingly in their products and in their own factory and office operations. Machine tool companies, for instance, have been making greater efforts to modernise to meet strong foreign competition.

The federal government in Bonn has been trying to spur along electronics research and the application of new ideas. One of its projects is to encourage more medium-sized companies to use computer aided

design (CAD), although governments in other countries began to give aid for this purpose earlier.

In schools, too, there is more emphasis now on learning about computers, which are apt to be more of a challenge to teachers than their pupils.

Some politicians have been vocal in calling for a new high-tech awareness. Herr Heinz Reisenhuber, the research minister in Bonn, has been arguing that microelectronics creates rather than destroys jobs. Herr Lothar Späth, the state premier of Baden-Wuerttemberg, has even published a book pointing out that Germans need a whole new outlook to make the best of the era of information technology.

All this, however, cannot get away from the fact that the West Germans have some way to catch up with their Japanese and U.S. rivals in certain key areas of electronics research.

Recognising this, Siemens has launched its ambitious "megaproject" aimed at producing one-megabit memory chips (able to store more than a million bits of data) and some-

what later four-megabit chips

(to store over four million bits of data).

In mid-stream, though, Siemens has turned to Toshiba of Japan for an agreement on exchanging know-how. The immediate upshot of this pact will be to speed up Siemens' production of one-megabit chips. Instead of sometime in 1987, these devices should be turned out by Siemens next year.

Link with Philips

Siemens hopes that it will not lag much behind rivals in producing these one-megabit chips. It also has high hopes of being well up with the leaders in eventually starting production of four-megabit chips, a development project in which it is co-operating with Philips of the Netherlands.

A company with plenty of cash, Siemens has greatly increased its investment spending—and not just for the "megaproject." In its financial year just ended, Siemens spent DM 4bn on investment, compared with DM 2.4bn the year before. It also plans heavy investment spending in the foreseeable future, plus considerable

outlay on research. Siemens is already West Germany's biggest private enterprise employer, with activities ranging from semiconductors to power stations. It has been stepping up its hiring lately, but in fact has been finding it hard to get highly skilled workers.

Behind its new drive is a clearly defined strategy which Dr Karlheinz Kaske, the chief executive, is pushing through with dogged determination.

The company has singled out certain lines of business as its top-priority growth areas. One of them is electronic components, to serve as the building blocks for advanced new high-technology products. The other main areas are factory automation, the office of the future, and public communications networks. In addition, it has focused on the U.S. as an area for expansion.

Siemens is going after these targets with a vigour which has surprised many people.

Dr Kaske says it is getting up would be a further broadening of its base into high technology areas. Daimler took earlier steps in this direction, gaining full ownership of

Bradley, the U.S. factory automation group. Following the loss of Allen Bradley to a higher bidder, Siemens has been indicating interest in Gould, the U.S. electronics group.

While Siemens has been gaining new momentum, that other long established electrical enterprise, AEG, has made a remarkable climb back from the brink of disaster.

Three years ago, AEG sought a court-supervised settlement with its bank creditors so that it could survive. Since then, Herr Heinz Duerr, the chief executive, has presided over a steady recovery at the slimmed-down AEG group and AEG's reputation as a high-tech concern has grown.

Now, Daimler-Benz, West Germany's most prestigious and most highly profitable motor vehicle group, has moved to take a majority stake in AEG. This step has dramatically opened up new perspectives for both concerns.

For Daimler-Benz, the link-up would be a further broadening of its base into high technology areas. Daimler took earlier steps in this direction, gaining full ownership of

Daimler's plans have also prompted comparison with similar ambitious takeovers by General Motors of the U.S., which is laying the foundation for an electronic link-up of all its worldwide operations.

For AEG, the Daimler connection means, among other things, financial strength to back up further high technology activities. Executives in both groups see many chances of co-operation between AEG and Daimler's other enterprises, for mutual benefit.

Meanwhile, Grundig, the consumer electronics group, is continuing to reduce its losses under the new management sent in by Philips of the Netherlands. Mr. Hermann Koning, the chief executive, now sees Grundig returning to profitability by the end of 1986.

The new broom at Grundig has already swept away some jobs both in West Germany and abroad, and further restructuring and job losses are likely in the future.

Mr. Koning believes that Europe has to come to grips with the problem of over-capacity in the whole field of audio-visual products. He also favours a tougher "protection" towards the Japanese, requiring them to have a high degree of local content in any assembly operations set up in Europe.

The European Community has already taken action to protect European makers of electronic typewriters from

## West Germany's top 50 companies

Rank	1984 1983	Company	Sector	Turnover 1984 % change 1984 over 1983	Employees end-1984 % change 1984 over 1983
1	1	Veba	Energy/oil/chemicals	48,611 1.4	78,795 -0.3
2	2	Siemens	Electricals	45,619 16.1	319,000 1.9
3	3	VW	Vehicles	45,671 13.9	238,353 2.9
4	4	Daimler Benz	Vehicles	43,505 8.3	199,872 8.1
5	5	Bayer	Chemicals	43,032 15.3	174,755 0.0
6	6	BASF	Chemicals	42,596 14.9	115,816 1.5
7	7	Hoechst	Chemicals	41,457 11.5	177,840 -1.1
8	8	Thyssen	Steel, engineering	32,430 14.3	132,934 -4.5
9	9	RWE	Energy	26,759 11.0	135,637 4.5
10	10	Ruhrstahl	Mining	22,415 12.5	4,129 -5.3
11	11	Deutsche Shell	Mineral oil	18,375 13.9	134,571 5.7
12	12	Bosch	Electricals	18,239 5.6	66,320 -4.3
13	13	Krupp	Steel, engineering	17,587 -1.7	7,045 -9.7
14	14	Deutsche BP	Mineral oil	16,445 4.3	73,917 7.1
15	15	GHR	Engineering	16,434 17.5	103,681 -1.1
16	16	BMW	Vehicles	15,766 12.0	3,877 -8.8
17	17	Mannesmann	Engineering	15,277 7.3	2,938 -0.7
18	18	Esso	Mineral oil	14,819 15.0	20,181 1.2
19	19	Ruhrgas	Energy/oil	13,735 10.1	59,679 0.4
20	20	Preussag	Vehicles	12,880 -12.4	46,533 -3.0
21	21	Opel	Vehicles	12,785 -4.3	87,507 0.5
22	22	Foed	Computers/electricals	11,277 6.2	22,531 5.4
23	23	IBM	Precious metals/chemicals	11,015 -0.2	73,100 -4.5
24	24	Degeuss	Electricals	10,516 5.7	43,205 -1.5
25	25	AEG	Holding	10,491 7.1	21,985 -0.7
26	26	Flied	Metals/process plant	9,427 3.8	2,252 -4.3
27	27	Metallgesellschaft	Food/chemicals	9,466 0.5	45,920 -10.6
28	28	Deutsche Unilever	Steel/shipping	9,421 11.4	31,612 7.2
29	29	Sabgitter	Chemicals	9,075 16.7	4,181 -2.8
30	30	Henkel	Mineral oil	8,133 3.4	35,790 -5.9
31	31	Deutsche Telekom	Construction	7,488 19.6	34,600 8.1
32	32	Philip Hahnemann	Electricals	7,251 7.6	33,500 -5.1
33	33	Deutsche Philips	Steel	7,011 -12.9	23,634 -5.9
34	34	Roesch	Engineering	6,992 7.8	31,030 -2.9
35	35	Deutsche Babcock	Coal/energy	6,728 3.5	31,946 -5.5
36	36	Saarbergwerke	Steel	6,716 1.1	31,639 -1.0
37	37	Klöckner-Werke	Publishing	6,603 3.2	7,353 0.8
38	38	Bertelsmann	Energy	5,973 1.2	20,979 -14.1
39	39	VEW	Holding	5,719 -2.7	35,485 -3.5
40	40	VIAG	Aerospace	5,715 18.7	24,906 -0.9
41	41	MRB	Engineering	5,700 12.7	34,520 -0.9
42	42	KHD	Chemicals	5,291 16.2	3,469 -0.7
43	43	Enka	Energy	4,888 4.2	26,258 0.0
44	44	Bayerwerk	Construction	4,888 14.1	22,039 1.1
45	45	Hochtief	Chemicals/pharmaceuticals	4,816 -2.7	36,650 -4.3
46	46	Schering	Electricals	4,732 n.c.	32,271 n.c.
47	47	BBC	Holding	4,732 n.c.	31,041 1.0
48	48	Batig	Electrical	4,492 4.6	
49	49	SEL			

n.c. (not comparable)

Source: Die Zeit.

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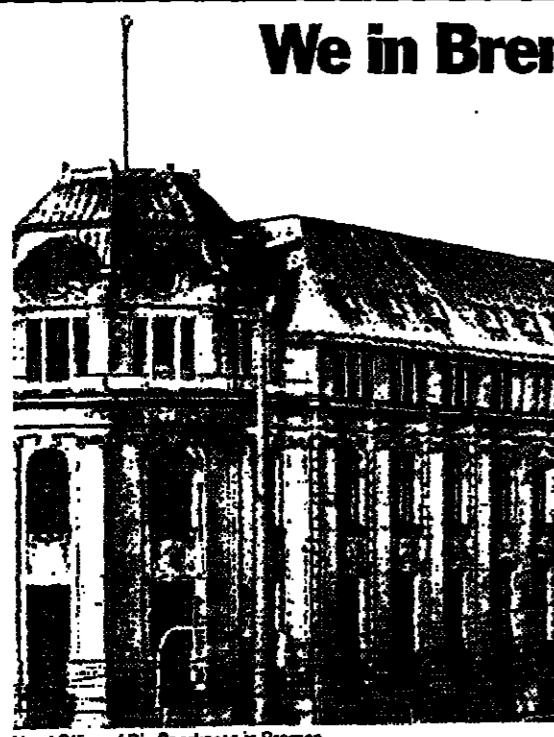
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## Big three go for higher earnings

## Chemicals

JOHN DAVIES

IN QUICK succession, BASF has bought up a string of businesses in the U.S. and Britain this year. In the midst of it all, it has raised DM 760m in cash from shareholders through a rights issue.

These moves are among the more dramatic signs of efforts being made by the West German industry to build on its good fortunes of the last couple of years and to strengthen its position in the future.

BASF's acquisitions will not only mean a big jump in its world sales. According to Dr Hans Albers, the chief executive, they will also strengthen BASF's earnings potential in the years ahead.

Executives at BASF put a lot of emphasis on the company's takeover of the carbon fibres and associated operations of Celanese Corporation of the U.S. these fit in with BASF's efforts to build up its position in markets for new materials, with the aerospace industry among its targets.

With its \$1bn purchase of Immont, the car paint and printing inks company, it has paid for a substantial market share in operations which it sees as benefiting from its technical chemical know-how.

BASF also moved to take over America Enka, the U.S. fibres subsidiary of Akzo of the Netherlands, although the move has been under close scrutiny from U.S. cartel officials. On top of that, it bought the Seal Sands chemical plant in the UK from Monsanto of the U.S.

Part of BASF's strategy has been to strengthen its raw materials business. In line with that thinking, the Seal Sands takeover will broaden its supply of intermediate products for fibres.

But like the other big West German chemical companies, Bayer and Hoechst, it is also aiming at more advanced products with high value-added. To varying degrees, all three are aiming, too, to build up opera-



Dr Hans Albers, chief executive of BASF (left), and Hermann-Josef Strenger, Bayer's chief executive

tions in the big U.S. market. Bayer has already established diversified interests in the U.S., including Mobay Chemical, Miles Laboratories and the operations of Agfa-Gevaert, its photographic and information technology subsidiary.

All of West Germany's "big three" chemical companies have been enjoying another strong year on top of their rapid gains of 1983 and 1984. Even so, intense efforts have been under way to improve ratio of earnings - to - sales revenue.

Herr Hermann-Josef Strenger, Bayer's chief executive, says that one of the company's main objectives is to bring about a sustained improvement in its earnings ability.

Since the first oil crisis more than 10 years ago, the whole industry has felt pressure on the level of earnings in relation to sales revenue. "Our aim is to get back to and if possible exceed the level of the early 1970s," says Herr Strenger.

All three big chemical companies have made major restructuring efforts in recent times to deal with areas of over-capacity or losses. Their success in doing this has helped to boost earnings since recovery set in.

But the European petrochemical industry is facing some renewed pressure now that new production plants are coming on stream elsewhere, notably the Middle East.

As part of the latest restructuring efforts, Hoechst decided to give up the production of



Solar energy equipment from Siemens will provide power in Middle East countries

polyethylene. It agreed to sell its polystyrene plants in the U.S. to Huntsman Chemical Corporation and soon afterwards announced it was negotiating the sale of its plant at Breda in the Netherlands to Shell.

Overall, the West German chemical industry has reported continued growth in business, although the growth rate has moderated now that activity has already reached a high tempo. Production in the first nine months of this year was 2.9 per cent ahead of the same period last year. By comparison, production grew by 5.3 per cent in the whole of last year and by 7.3 per cent in 1983.

Exports have continued to provide the strongest stimulus. The chemical companies found that demand within West Germany was muted during the first quarter of this year, partly because the building industry was in the doldrums.

Since then domestic demand for the chemical industry's products has picked up. It has been spurred along by a slight uplift in consumer spending and by the hefty upsurge in industrial investment.

With the stock market in good form, the long-established Henkel chemical company made the historic step recently of opening itself up to private investors.

The company, linked with the invention of Persil washing powder, has developed into a diversified group with sales of DM 9.3bn last year. But after 109 years of operation, it was still a family concern, owned by

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## West Germany 9

## Daimler-Benz roars into its second century

## Vehicles

JOHN DAVIES

**DAIMLER-BENZ**—elite, proud, technology-driven and a shrewd operator into the bargain—is gearing up for centenary celebrations next year but the company clearly has its sights set well into the second century of the automobile age.

In a series of moves this year, each more dramatic than the other, Daimler-Benz has set about broadening its technological base to ensure its pre-eminent position.

First, it snatched the opportunity to buy out its equal partner in MTU, the aero, marine, industrial engine maker. Then it snapped up a 65.5 per cent stake in Dornier, the high-tech research company and light aircraft maker. More recently, catching virtually everyone unawares, it launched a bid to buy a majority stake in AEG, the electrical concern.

These moves have come while the West German motor vehicle industry is still catching its breath after some turbulent times. The industry was hit by labour troubles last year and then faced a domestic market that was upset by confusion about pollution controls.

Daimler-Benz, however, is one of the companies that came through it all with flags flying. It increased profits last year despite the industry-wide strike, and in the depths of the domestic market slump earlier this year, it was alone among German companies actually increasing its local sales.

Its takeover moves, according to Daimler executives, are all part of a carefully worked out strategy for the long term. Having set their objectives, Daimler board members have pounced at the time appeared ripe.

They have been at pains, however, to stress that Daimler is not really changing its colour. Despite diversification, it is still basically a motor vehicle concern and reckons it will remain so.

What's more, executives argue there are still plenty of growth prospects for cars, especially in the quality market segments—that is, Daimler straddles.

Even the commercial vehicle market, which has shrunk in recent years, is one that Daimler cultivates worldwide with moderate optimism.

Daimler aims to branch out into high technology areas of various kinds and with good growth potential. Although such operations would be fairly independent, it expects to see some co-operation in research and the results could well include spin-off benefits for motor vehicle technology.

After all, the West German vehicle makers pride themselves in being world leaders in auto-

mobile technology and Daimler's moves show a determination to stay a jump ahead.

Many people believe that qualitative growth is going to be even more important for the motor vehicle industry in the future. Electronics and new materials could play a greater role in the motor vehicle. Electronic maps and guidance systems, for instance, are among projects which research scientists have been puzzling over.

There is also the notion that the electronics and communications revolutions will lead to a new world of computer integrated manufacturing. This could amount to an electronic link-up of all stages of production—all the way from research and design to assembly and delivery to customers. Component suppliers could also be drawn into such an electronically co-ordinated system.

General Motors of the U.S. already seems to be taking steps inspired by such thinking. It has moved into high technology areas by taking over Hughes Aircraft Company and Electronic Data Systems (EDS).

With its bid for AEG, Daimler-Benz's moves have inevitably been compared with the ambitious plans of General Motors.

Looking ahead to its automobile centenary celebrations next year, Daimler has been giving broad hints of generous treatment for its shareholders to mark the occasion. In any case, it is bound to use the centenary to give further shine to its image.

Professor Werner Breitschwerdt, the chief executive, has already indicated that Daimler is planning another substantial increase in car production next year. To make this possible, it is expanding capacity at its plant in Bremen.

But with the whole domestic market soon picking up again, BMW has been strongly regaining ground. It has also launched a number of new models, including a diesel version of its 3-series.

Diesels have greatly increased in popularity in West Germany this year. They made up 20.6 per cent of all new car registrations in the first eight months of this year, compared with 12.5 per cent in the same period last year.

Many motorists have turned to diesels as the answer to the controversy about pollution controls.

The trend towards diesels is part of the reason for Volkswagen's strong showing this year. VW's domestic sales slipped much less severely than the market as a whole earlier this year, while its sales in European export markets surged ahead.

The result was to give VW a narrow edge over competitors to become European market leader in the first half of this year.

VW has been striving to expand output to keep up with the strong inflow of orders, especially for the new generation Golf. Workers at its domestic assembly and component plants agreed to work some Saturday shifts in return for time off later and the company has stepped up hiring new workers.

It has also launched a special investment drive to remove bottlenecks in assembly operations.

Along with its Audi subsidiary, VW has been staging a strong profit showing this year—with its half-year earnings exceeding the total for the whole of last year.

The U.S.-owned mass production carmakers in West Germany, Opel (the General Motors subsidiary) and Fordwerke, have been wrestling with major problems, in the wake of their heavy losses last year. Their position was made more difficult by the upset in the domestic market, coming on top of the already intense competition and pressure on margins.

Porsche, the elite sports car maker, reported a further big increase in sales revenue in its financial year ended in July. Although it did not disclose its earnings at that stage, it benefited strongly from the surge in sales in the U.S. (its biggest market) and from the high dollar.

Overall, West Germany could turn out a record total of more than 4m cars this year, if the industry's expectations are fulfilled. Exports have been taking more than 60 per cent of car production this year, offsetting the disarray in the local market.

Although the prospect of "windfall" profits from a high dollar have been receding, the industry has been looking with more optimism to the home market, as well as to other European markets.

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Daimler-Benz Mercedes car assembly line at Sindelfingen, near Stuttgart. The company is broadening its technological base

## Controversy over Kalkar fast breeder reactor

## Nuclear energy issue

JOHN DAVIES

**COULD** West Germany simply abandon a project built over 12 years at a cost of DM 6.5bn (\$2.46bn)? Critics of the fast breeder nuclear reactor at Kalkar have been arguing for just that.

The controversial nuclear project is on the verge of completion. If the authorities give the final go-ahead, the reactor could soon take fuel supplies and begin producing electricity.

But Kalkar has become a highly emotional word and the project is well and truly caught up in political manoeuvring. Experts doubt whether the critics can really stop the project now that it has gone so far, but delays and legal wrangling could be shaping up.

Nuclear projects have already provided a fruitful source of activity for lawyers and courts in West Germany over the years. There have also been violent clashes between police and anti-nuclear demonstrators, at times at construction sites.

Even so, nuclear power has made a lot of headway and has become a substantial source of the country's energy supplies. France and Belgium have gone even further, but West Germany nevertheless needs about a quarter of its electricity needs from nuclear power.

West Germany now has a network of 16 nuclear power stations, plus three experimental plants, and further projects are underway; but there is still an undercurrent of opposition which continues to create

problems for the nuclear industry.

Opposition to nuclear power helped to give rise to the Greens, the environmentalist political movement, which has representatives in the Bundestag in Bonn and in some state parliaments. What is more, anti-nuclear sentiment has gained ground within the Social Democratic Party (SPD) in recent years.

Much of the opposition at the moment is being directed at projects labelled as potential pillars of a "plutonium economy". These projects include the nuclear fuel reprocessing plant to be built at Wackersdorf in Bavaria and the fast breeder reactor at Kalkar.

The Kalkar project has gone ahead step by step under the aegis of the local SPD Government of the state of North Rhine Westphalia, but in recent times state politicians have been steadily distancing themselves from it.

**Support in Bonn**

State authorities are responsible for overseeing and approving various stages of the construction project but nuclear experts point out that even if the state refused to give the final go-ahead, the Federal Government could intervene to ensure Kalkar started up.

For the state government, Kalkar is a stinging nettles. It cannot simply switch ground without preparing a case but it has been making clear that it has a lot of doubts about the project.

While strands of opinion in the SPD are flatly against Kalkar, some politicians are obviously manoeuvring to put responsibility for Kalkar's start-up firmly on the shoulders of the Federal Government in Bonn.

Considerable doubts about Kalkar have been voiced by Herr Johannes Rau, the SPD state premier and also the likely SPD candidate for Chancellor in the West German federal elections to be held a little over a year from now.

He has queried whether the fast breeder reactor, which would virtually keep creating its own fuel, can be run economically. "Is it really safe?" he also asks. And what exactly will be done with radioactive waste from the fast breeder?

On top of that, he points out, there are no longer fears of a world scarcity of uranium for more conventional nuclear reactors.

The nuclear industry has responded by arguing that Kalkar, backed by public and private money, is a significant technological project and that West Germany's standing abroad would be damaged if it failed to go ahead. After all, the Netherlands, Belgium and Britain have been involved in the project.

Experts argue that stringent safety precautions have been taken. They also point out that broad agreement has been reached with France about handling fast breeder nuclear waste.

The whole question of nuclear fuel has been under much discussion in West Germany. With the network of power stations building up, so too is the output of spent nuclear fuel, as well as various kinds of contaminated waste.

Should this spent fuel be reprocessed for further use or should it be stored permanently, presumably deep underground? Should it stay in West Germany or go to France, China or elsewhere?

France and, to a lesser extent, Britain, have agreed to take spent nuclear fuel from

West Germany for reprocessing. In addition, West Germany has decided to build its own reprocessing plant at a cost of DM 5.2bn at the old Bavarian mining village of Wackersdorf.

This plant is due to start up in the 1990s but will not be able to reprocess all of the spent fuel produced from German power stations in the future. It is expected, however, to strengthen the hand of West German electricity utilities in negotiating the terms for using reprocessing facilities abroad.

The SPD has come out in favour of permanent storage of spent fuel rather than reprocessing, which it rejects basically because of its association with plutonium. For this reason the SPD is lending its weight to a campaign to stop Wackersdorf going ahead.

Opponents of the project have already staged protests in Wackersdorf and Munich and are preparing to mount further efforts.

In the meantime, what about China? The Bonn Government at first brushed aside suggestions that it might allow spent fuel or nuclear waste to be sent to China. Electricity utilities, too, professed to be fairly unenthusiastic.

The idea has evidently been gaining some ground, however, and experts have been seriously weighing up the possibility of some material being despatched to China, perhaps on a trial basis.

The Chinese have been keen to build nuclear power stations and Kraftwerk Union, the Siemens subsidiary, has been vying strongly for business. The Chinese, however, are obviously interested in the possibility of offsetting costs through various types of deals with the West.

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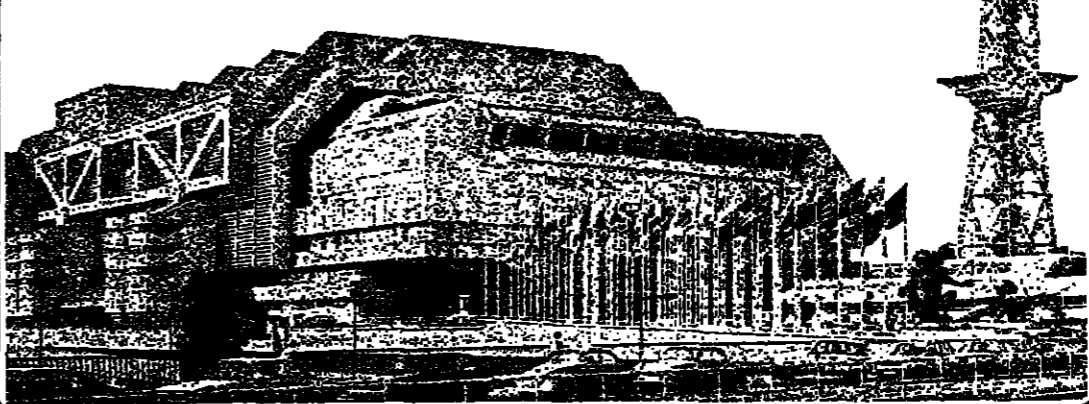
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## West Germany 10

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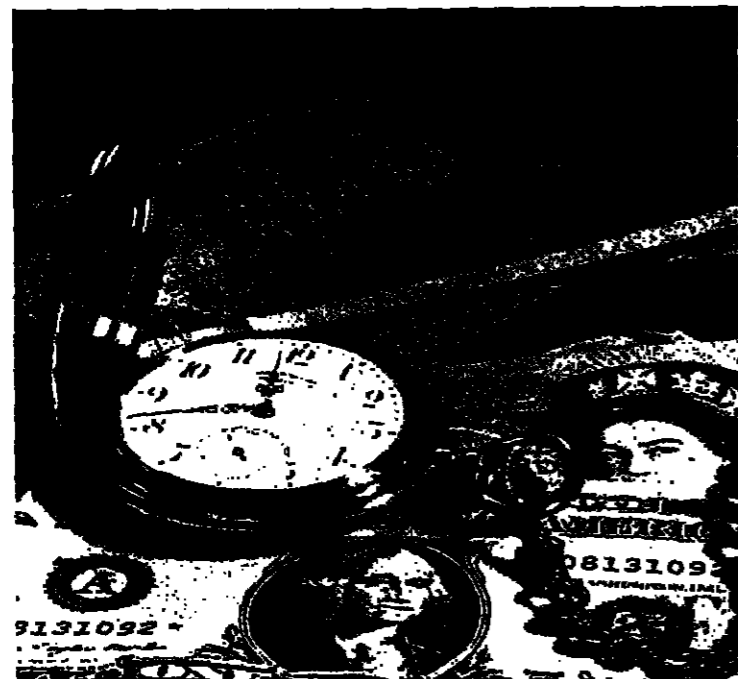


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## Powerful newcomer will sharpen competition

**Aerospace**  
RUPERT CORNWELL

WEST GERMANY's aerospace industry, reduced to nothing after the last war, still ranks a distant third in Europe, behind those of Britain and France. But in the last few months it has acquired a hugely powerful newcomer, whose arrival could sharply change its longer-term prospects.

The newcomer is Daimler-Benz, the car, bus and lorry-maker which is the country's fifth largest industrial concern. In the space of two months earlier this year it swooped twice to scoop up the control firm of Motoren- und Turbinen-Union (MTU), the dominant West German aero-engine manufacturer, and then of Dornier, the family-owned aircraft producer.

In doing so, it created a second concentration in the industry to challenge Messerschmitt-Bölkow-Blohm (MBB). Admittedly the two purchases — for an estimated cost of some DM 1bn — will still leave the Daimler-Benz stable a long way behind MBB, with its annual sales of over DM 5.7bn.

"Nothing much is likely to change in the short term," comments Herr Arno Schmitz, of the German Aerospace Industries Association in Bonn. But from a longer view point, the injection of the financial and managerial resources of Daimler-Benz into Dornier can only help build the latter into a potent and — many would say — needed competitor to MBB.

It will also give extra edge to the not always friendly high-tech rivalry between Bavaria and Baden-Württemberg, the two boom states of the German south. MBB has long been a particularly favoured child of Herr Franz-Josef Strauss, the powerful CSU leader, Premier of Bavaria, amateur pilot and an aerospace devotee of long-standing.

Dornier and above all Daimler-Benz on the other hand are based in Baden-Württemberg, the fief of Herr Lothar Späth, the state's CDU Prime Minister, whose ambitions equal

those of Herr Strauss. For its part, MBB chalked up a smaller victory of its own in 1983 by taking an indirect but nonetheless influential holding in the Krauss-Maffei defence concern, previously part of the privately-owned Flick industrial group.

This increasingly politicised façade has not disguised the reality which the German aerospace manufacturers everywhere are facing: the problem of maintaining a steady flow of work to support the 71,000 jobs provided by the industry. The omens presently are mixed.

### Work on Airbus

MBB is the prime German contractor for Europe's largest civilian and military aerospace joint ventures, the European Airbus and the three-nation Airbus respectively. Both had encountered a flat patch. But the fortunes of Airbus, in which MBB has a 37.5 per cent stake, have picked up, not least because of the interest attracted by the planned A-320 narrow-bodied jet.

Production of Tornado more-over is now certain to stretch beyond the original date of 1989, thanks to the first, long-awaited, export orders. But thereafter?

Both MBB and Dornier are bound to be involved in the planned European Fighter Aircraft (EFA), to be developed by Britain, West Germany, Spain and Italy. But the EFA will not be flying until the mid-1990s.

It is also a smaller aircraft than Tornado, and will therefore not provide as much work. MBB is aiming to take up most of any slack through its non-aircraft activities, including helicopters (and the Franco-German PAH-3 high speed transport system, and space, through its MBB-ERNO subsidiary.

Today, according to Herr Schmitz, space-related business provides 4,300 jobs directly, and 9,000 if R and D and other ancillary activities are included. But for all its glamour, government backing and the transition from the experimental to the commercial stage (on October 30 the U.S. shuttle Challenger will lift off with a

virtually German Space-lab on board), Bonn's space programme is unlikely to be a major supplier of jobs.

For its part also, Dornier is evolving rapidly. The Franco-German Alpha-jet trainer programme is close to the end of its life, but the company is active in the U.S. space lab and European Ariane projects, as well as the future EFA, and is a major contractor in the European remote sensing satellite (ERS-1) programme.

It is also responsible for the DO-228 general transport aircraft, of which 94 have been sold, and a further 23 taken on option. The plane moreover will be built under licence in India. It is a measure of the limitations of the country's aerospace industry that the DO-228 is the only stable aircraft which is a purely German venture. But there are sound historical and practical reasons for the shortcoming — if such it is.

Between 1945 and 1955, German aerospace to all intents and purposes did not exist. Then the old pre-war names began to regroup, mostly into MBB. But the delay, and the obstacles represented by wartime memories and Allied restrictions meant that the sector was in no position to catch up with Britain and France.

Germany has bought its ticket to the top table of the international industry by sharing in joint ventures, which in any case had gradually become the only practical means of launching major projects. But the device serves another purpose too.

If military equipment now accounts for 50 per cent of aerospace business, that is not least because shelter within multinational ventures allows German manufacturers an access to foreign sales which the tight restrictions on arms exports here would make impossible, were the country acting on its own.

The recent contract to supply 72 Tornados (in which the German participation is 42.5 per cent) to Saudi Arabia is a case in point. The deal went through with comparatively little difficulty — unlike the hornet's nest stirred up by news of a possible delivery of a munitions plant to the same country, just a few days later.

## Recovery follows years of losses

ETHER West Germany's steel-makers have developed to a fine art the practice of putting the worst possible face on to the best possible news, or they really are, as they claim, a healthy and vibrant species fast with an extinction as rapid and mysterious as the dinosaur.

After a miserable few years, culminating in widespread losses in 1983, all the major producers recovered last year. Thyssen turned a 1983 loss of DM 416m into a DM 178m profit in 1984. Krupp Stahl, which lost DM 287m in 1983, made DM 21m last year. Hoesch improved its operating profit from DM 31m to DM 182m, and plans to pay its first dividend since 1976 next year. Kloeckner-Werke lost DM 139.7m in 1983-84, broke even (though its steelmaking division continued to lose) in 1984-85 and expects to have made an operating profit for its 1984-85 year, which ended on September 30.

Total West German crude steel output rose 10 per cent to 39.4m tonnes last year and will rise to just over 40m tonnes this year. Exports rose 17 per cent to 12.9m tonnes in 1984 and will reach 14.2m tonnes over the next two months. Utilisation of steelmaking capacity (a difficult measurement in the steel industry) is said to have risen to 76 per cent this year from around 70 per cent in 1984.

The steelmakers, however, are not to be found chortling over their balance sheet and production figures. Instead they are to be found on platforms railing against government "soft-headedness" in the European Community complaining about subsidies, pounding tables in Brussels in an effort to stop moves to liberalise the heavily regulated European steel market and worrying among themselves about protectionism in the U.S.

### Steel

PETER BRUCE

Being mostly public companies and not like many of their European competitors, state-owned, the Germans all live with the same nightmare: high subsidies in France, Italy and Belgium make it difficult to compete fairly. The government in Bonn, despite an apparent ideological abhorrence of state aids, approved a "final" injection in March this year of DM 9bn in subsidies to these countries through the European Commission: that same commission is now trying to lift production (and in some cases even price) controls on structural steels, wire and coated sheets which the Germans would like to see subsidised producers to raise output and cut prices.

Natser is there any justice. Earlier this month the European court threw out a complaint by West Germany about the way the commission has been authorising subsidies of the steel companies. Even more worrying must be the fact that while there is growing evidence of a broad recovery in the domestic economy here — after two years in which gross national product has been almost entirely due to a dollar-led export boom — domestic consumption of steel is hardly rising.

While the motor industry is heading for probably another year of recovery, steel car-makers are also using lighter steels and any value-added advantages to the steel producers are being squeezed by imports. And the construction industry, the most important steel consumer, remains in crisis and is only taking part in the recovery to the extent that the three-year plunge in construction orders has slowed slightly. Steel imports, about 40 per cent of total consumption, continue to rise, by about 3 per cent this year to 9.6m tonnes.

The steelmakers, however, claim to have done all they can to cut capacity and meet the real demands of the market. Capacity has been cut by 6.3m tonnes from 53.1m tonnes in 1980 — more than demanded by the Commission as it implemented its long-running regime designed to stage a managed run-down of capacity throughout the European community. Producers say the remaining gap between available domestic capacity — 46.5m tonnes — and production would quickly be reduced if EEC steel subsidies were cut off (as planned in 1988) and the Germans could then be given the same access to other European markets as is allowed in Germany.

But that is probably not how the real world will unfold. West German producers believe they face subsidised competition for years to come and the truth is that they are not doing too badly in spite of it. And they will survive. Even Arbed, the cripplingly of the domestic steel industry, is showing signs of life, after having more than DM 3bn pumped into it in a bit lucky.

## Fresh attack on Japanese in electronic control techniques

### Machine tools

PETER BRUCE

ABOUT A YEAR ago, West Germany's machine tool industry took out a series of advertisements in newspapers across the nation to announce, in effect, "We are back." At first sight, it was an eccentric thing to do. The country had for years been one of the great machine tool producers in the world, and it remains the world's biggest exporter of machine tools.

"When we went selling in the Soviet Union, Ministers there knew what a machine tool was. After our campaign, Martin Bangemann (the West German economics minister) also knew what a machine tool is," one producer says.

But the education of Chancellor Helmut Kohl's Cabinet was probably only secondary to the campaign. The industry, mostly a fragmented collection of privately owned companies, has been to its own equivalent of hell, survived, and it wanted to show off a little.

Squeezed between an onslaught on its domestic and international markets by Japanese producers, and a dearth of orders at home, the industry shed 20,000 jobs between 1980 and 1984. About 30 manufacturers are thought to have been swallowed up by competitors or disappeared altogether. Until last year, most of the industry was making losses.

But a machine tool producer would be in the wrong business if the industry's traditionally stomach-churning business cycle proved too daunting. What was different this time was a sharp attack by the Japanese, numerically controlled (CNC) lathes and machining centres.

The story of how the Japanese invaded Europe with mass-produced, cheap, reliable, colourful machines towards the end of the 70s is an old one. The fact that they scared the Germans, who in the main concentrate on specialised machines with small markets and hence small volumes, has been stoically hidden.

The German industry commissioned a study on the Japanese attack. Herr Werner Babel, owner of one of the country's most successful machining centre producers,

Maho (which is an exception to the German rule in that it mass produces), says that after reading it "we were surprised at the broad and deep marketing success of the Japanese." There was worse to come in the report. "We found out we didn't know where we were selling or who the customers were."

"It is now very important," he says to find out why the Japanese were so successful in such a short time with CNC lathes and machining centres. Apparently the report contains an answer, but it, and its recommendations, remain secret.

What shocked the Germans was the sophistication of electronics in the Japanese machines. "It was overwhelming," says Herr Helmut Betz, chairman of Ingemag's manufacturing operation in Germany, "but I think the West German machine tool industry has overcome the problem."

Herr Betz says the Japanese did two scary things: they started first with a new generation of CNC controls but more important they introduced a much greater proportion of "in-line" testing during production. Where most European and American producers would deliver a machine to a customer and then spend a month getting the bugs out of the system, Japanese competitors were able to deliver and walk away.

### Lively reaction

Herr Simon van Kempen, chairman of Traub, one of the country's biggest turning machine producers, remembers that his company was making a world-beating 60,000 automatic lathes a year when the new electronics began to appear. Traub's reaction, faced with a potentially fatal threat to its export business, was typical, at least in its speed. The group moved DM 10m five years ago in the development of a new machine, the TND 360 and began funding private research at a university close to its headquarters near Stuttgart. Ironically, it teamed up with Mitsubishi to develop a new control which would leapfrog its competitors.

The reaction to the Japanese has also transformed many of the companies. Scharmann used to be a fairly dull producer of conventional boring machines. It first tried to meet the Japanese head on by converting, through the application of new electronics, a range

of boring mills to machining centres. "It was a failure," says Scharmann's sales manager, Herr Helmut Maeschke, "but it changed us."

Scharmann has now devoted itself to building flexible manufacturing systems and, in common with the technology it is selling the salesmen too have undergone an almost cosmic change. "We are looking for risk takers," says Herr Maeschke. "We're deliberately looking for top grade customers." The group has sold systems to JCB in Britain, GM in the U.S. and to Germany's most successful printing plant producer, Heidelbergdruck.

"We told Neil Bamford (of JCB), 'If you go for this system it will make your career. We won't let you down'," Herr Maeschke says. The Germans have never sold machine tools like that before.

The hard work, pain even, has made the recovery over the past 18 months that much sweeter. Incoming orders for machine tools rose 34 per cent in 1984 to a total of DM 11.1bn but that performance was largely export-induced. This year, however, orders are up 60 per cent again, and the cheering news is that, while exports are still up (60 per cent on last year), the domestic market has suddenly taken off. Home orders but less 36 per cent so far in 1985.

Capacity utilisation in the industry, already at a high 84 per cent last year, currently stands at nearly 95 per cent. Herr Van Kempen says Traub's order book is full for the next 12 months and, like many others in the industry, he is now finding it difficult to expand capacity and find new people. The boom, he says, will probably begin to fade in 1987.

Having been caught once at being the best manufacturers of machines no-one wanted to buy, the West Germans are highly unlikely to find themselves in the same predicament again — at least in the foreseeable future. "We are watching the Japanese," says Herr Maeschke, but like many of his colleagues he believes the threat from the east has been overcome. German producers claim the Japanese simply cannot compete with bigger machines and consequently lower volumes. Of British and other European competition there is simply no discussion.

That may be complacency, and there does remain a high element of risk in the business. "You have to do your homework," says Herr Babel, "but you also have to be a bit lucky."

## West Germany 11

Stuttgart's  
problems those  
of successThe North-South  
issue

**QUESTION** — "Who are the Scots?"

**ANSWER** — "Swabians cast out of their homeland for being too useful!"

THAT IS one of the milder Swabian jokes. Another (which appears in several versions) tells of the Swabian who insisted that his ashes be put in an egg timer after death "so that I can go on being useful."

The casual traveller who comes across these tales while reading on the train speeding south to Stuttgart may find that a shiver goes up his spine. Stuttgart, after all, is the capital of the state of Baden-Württemberg — home of the evidently mean and chillingly diligent Swabians.

Better, perhaps, to stay on the train and go on to Munich. The Bavarians are reputed to be fun-loving and generous, even a bit too much so at times. If, despite his qualms, the traveller gets out in Stuttgart after all he is in for a pleasant surprise. One of his first views on leaving the station will be of a vine-planted hillside sweeping down almost to the city centre.

## City vineyard

He will (rightly) say to himself that this must be one of the most expensive strips of vineyard in the world — so money is evidently not everything to Swabians!

He may also learn that the Stuttgart area produces more wine than almost any other German municipality, and, surely, no people with so close a relationship to the grape can be wholly work-crazy.

These first impressions are quickly confirmed by a couple of minutes' stroll from the station into the Schlossgarten — a grand city park with fountains, lakes, splendid buildings (and Swabians uncharacteristically lazing in their dozens on the grass).

At one end of the park the huge, baroque Neues Schloss with its marble walls and crystal chandeliers (once the residence of the Kings of Württemberg) is in itself an eloquent evidence of more in Stuttgart's history than unimpressive pfennig-pinching. A few steps away the Staats-

theater helps round out the picture of the city too — with its fine opera and a ballet company acknowledged to be Germany's finest.

The traveller who sees all this — perhaps with brief trips to the Staatsgalerie to see the canvases of the Stuttgart expressionist Oskar Schlemmer, or to the Weissenhof sector of apartment houses master-minded by Mies van der Rohe — may return to the railway station feeling more than a little baffled.

He had expected a hectic time in a bustling, business-oriented city — and instead he found an almost dreamy atmosphere, like that of a large and elegant spa. Could it be that all those tales about Swabians were pure fantasy?

## 19 mineral springs

Not altogether. True, there is something in that comparison to a spa. Stuttgart has 19 mineral springs and a thriving water bottling business. After the war, when the city suffered serious bomb damage, there was even talk of turning Stuttgart into a full-time spa with the Neues Schloss as the top hotel.

Instead native diligence and business acumen (along with a bit of luck) quickly restored Stuttgart as a centre for high quality industry. The big names are well known the world over — Daimler-Benz and Porsche (motor vehicles), Bosch (electricals), Zeiss (optics) and so on.

But the success of such major companies is not the only reason why Stuttgart and the state it heads have regularly been able to turn in the lowest unemployment rates in the country.

For one thing the Swabians have a good spread of small and medium-sized companies which have shown great flexibility in the face of recession. For another they have identified high technology, high growth sectors and fostered them more steadily than most other areas of the country have done.

There is one good geographical reason why a stroll round the city centre yields little evidence of this industrial muscle. Stuttgart's core lies in a bowl-bounded by hills, some of them steep.

It is one of the most attractive of all city sites but it also has grave drawbacks. The air in the centre often becomes stifling in the summer, road



The baroque Neues Schloss, former palace of the Kings of Württemberg, dominates one end of the Schlossgarten city park

communications can be nerve-racking and the scope for business expansion is small. When Robert Bosch set up shop with two helpers in the last century he could easily work from within Stuttgart itself. But the Robert Bosch group (1984) has long since moved out of town to the Schillerhöhe heights — still only 20 minutes' drive from the centre.

Likewise, Daimler-Benz is across the River Neckar in the suburb of Untertürkheim to the east, and Porsche is at Zuffenhausen to the north. "Silicon Valley" Stuttgart blossoms across the autobahn ring to the south.

Stuttgart's problems are, in part, the problems of success. For example, the local metalworkers' trade unionists are among the toughest bargainers in the country, feeling with some justice that Stuttgart area employers are better heeled than their counterparts elsewhere.

Then nearly one-fifth of the city's 570,000 inhabitants are foreigners — "guest workers" and their families drawn by the good employment opportunities. That naturally makes for integration strains.

Fortunately Stuttgart has two particularly adroit political leaders — both Christian Democrats who none the less make a study in contrasts. One is the state Prime Minister, Herr Lothar Späth, a small, dark man — the personification of the Swabian "hustler."

He is always on the move, whether probing the chances of more business with China, examining the latest technological developments in the U.S. — or fostering local research efforts into fields like microelectronics and biotechnology. He has also had the political

acumen to act as intermediary between the choleric Bavarian Prime Minister, Franz Josef Strauss, and Chancellor Helmut Kohl in Bonn — without getting his fingers burned in the process.

The other leader is Herr Manfred Rommel, best known outside Germany as the son of the wartime "desert fox" Field Marshal, but locally recognised above all as one of the most popular mayors Stuttgart has ever had. A big, comfortable-looking man who gets through far more work in a day than his appearance might suggest, Herr Rommel has a

deserved reputation for political fairness and civil courage.

There are many examples — among the best known when he agreed that terrorists who had committed suicide in Stuttgart-Stammheim top security jail could be buried in a local city cemetery. To shocked citizens who recalled the terrorists' crimes, the mayor said simply that "all enmity ends with death."

Stuttgart has many reasons to consider itself a fortunate city — and one of them is Manfred Rommel.

Jonathan Carr

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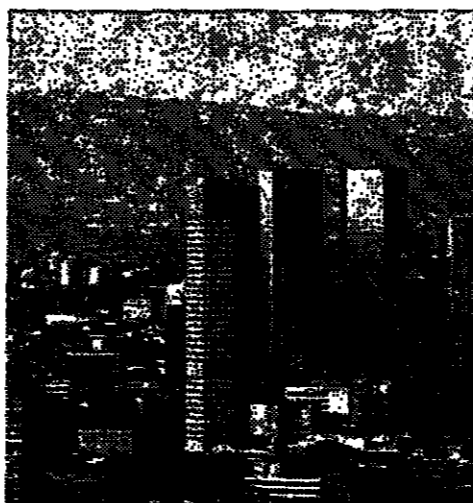
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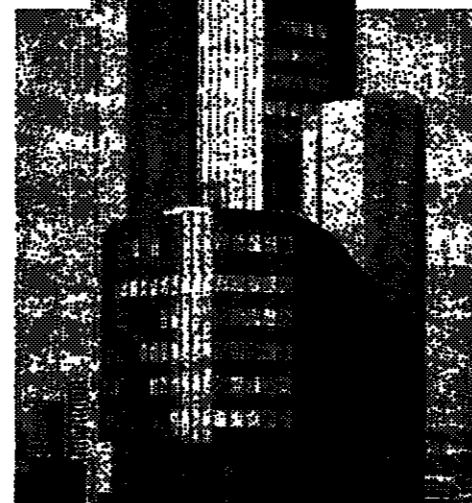
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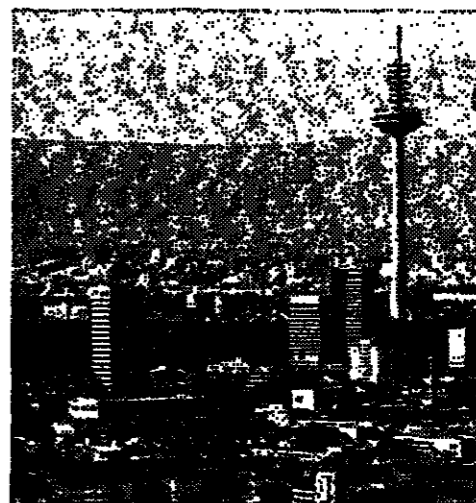


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The bleak North Sea coastal area of Lower Saxony epitomises the country's less prosperous face.

Windswept East Frisia  
feels the chill

ON A RAW October afternoon, as a rasping wind drives the rain almost horizontally before it, and when sky, sea and sand fuse into differing shades of grey and glistening silver, East Frisia begins to reveal its soul.

The summer tourists have mostly gone, and the holiday houses stand locked and empty. During the approach from the south to this remote north-western corner of Germany, pasture and woodland give way to flat open expanses of dykes, canals and the occasional line of unhappy poplars, bowed before the gales they are supposed to break.

The rich marshy grassland supports hard upon herd of fat Frisian cattle. There are solid little villages and large red-brick farmhouses, sometimes the odd windmill, visible from miles away.

## Mud and sand

Further on still, the land finally yields to the shallow mudflats of the North Sea. Just beyond there are islands, like Norderey, little more than giant sand dunes. The resolutely cheery little town sheltering at its western tip even has a casino to cater for the taste of its more affluent summer visitors.

But northwards and eastwards, civilisation gradually gives up the unequal fight. What soil there is yields to sand, the shrubs and dogged fir trees to reeds.

Along the last line of dunes are dotted stoutly built and cosy *Gasthöfe*. Safely within them, you can sip the sweet weak tea beloved by the locals — or something stronger — and contemplate the elements outside doing their worst. When the wind is up, the sea boils grey-brown and a filmy golden cloud of whipped sand covers the beach, as far as the eye can see.

This is where Germany ends: not only physically but economically as well. For East Frisia and its islands are not just a geographical outpost pointing nowhere. They also constitute the poorest region

of the country, where unemployment in places is at levels approaching those of the third world.

Of course, such things are relative. West Germany is after all the greatest industrial power in Europe, and in the port town of Emden, whose 52,000 inhabitants make it the largest centre of the vicinity, the overpowering first impression is of neat solid prosperity, so reminiscent of Holland just across the estuary of the River Ems.

But even in Emden, with its natty shops, its cheerful sturdy people, and night clubs with names like Madhouse and Eve which stay open until 4 am on a Saturday night, appearances are deceptive.

Once it was among the most important ports of Germany and North Europe, before the estuary silted up during the 16th century. It was rebuilt by human toil, but even that has been unable to prevent Emden sharing in the larger industrial agonies of Germany in the 1980s.

The contraction of the steel industry in the Ruhr, more than 200 miles to the south, has helped to kill thousands of jobs there by drastically reducing the imports of iron ore which once were the staple of the port.

Emden's role as a transit centre has been damaged by the growth of ports like Antwerp and, above all, Rotterdam, which moreover offer cheaper freight rates along the network of canals which criss-crosses Northern Germany.

The crisis in the shipbuilding industry too has weighed upon the town. Thyssen Nordseewerke, the biggest yard in the state of Lower Saxony, has halved its workforce in Emden to 2,500. Today, Emden's hopes are pinned in part upon a revival in the car industry which would benefit Volkswagen, whose local plant, employing 10,000 people provides the main source of work for both city and hinterland.

Another prop should be the project, worth over DM 1bn, for new port and industry facilities in the bay of Dollart

just to the south. After stiff opposition from German and Dutch environmentalists — and almost a quarter of a century of discussion — agreement was signed in September 1984 by the foreign ministers of the Netherlands and West Germany for the scheme to go ahead, a symbol of determination at last to revive the fortunes of the place.

But Leer, a few miles inland along the Ems, has not been so fortunate. Its name in German means "empty" — and could hardly be more fitting. Once the biggest employer there was a subsidiary of the Olympia typewriter concern, closed after the near collapse of its parent AEG in 1982. Even construction of a new motorway link with the richer, more industrialised areas to the south is unlikely to make a decisive difference.

## 13pc out of work

Unemployment in the state of Lower Saxony, at over 13 per cent, is well above the national average. By most estimates the figure around Emden, and above all Leer, is double that. In Friesoythe, a town of 32,000 people 55 miles to the west of Bremen, the registered unemployed represent 50.3 per cent of the workforce. It is the highest jobless rate in all Germany.

True, much of the immediate misery is cushioned by West Germany's eminently generous system of social security benefits. But even that cannot change the fact that Friesoythe and the rest of East Frisia are stranded on the wrong side of the other division of Germany, between a north becoming relatively poorer, and a flourishing south.

The East Frisians are hardy and stoical, and great survivors. But they nurse few illusions that the prospects of real revival are hardly more encouraging than one of those glinting sandswept days, when the wind is so strong that a seagull can hang motionless on its eddies.

Rupert Cornwell

## West Germany 12

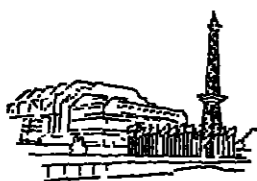


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Setting  
fashion  
trends

A taste of India from Manfred Schneider's summer 1986 collection (left) and a double-breasted suit (right) by Hugo Boss

RISK-TAKING is the essence of style. Mary Quant did it in the Sixties. So did Andy Warhol. The Parisians do it. So do the Milanese. But what about the Germans?

The young trendies of West Berlin and Munich take risks in parading the outlandish styles known as street fashion. Bavarian men take risks, but leatherhosen have never caught on abroad.

That is not to say, however, that successful fashion has to be outrageous. Several West German companies have proved the point. In fact, West German success in the rag trade has been partly because the industry offers no-risk products designed to sell in volume, rather than to shock or titillate. Among West Germany's biggest clothing manufacturers, Escada, Mondt and Steffmann do little to disguise the fact that they go for solid, rather than spectacular style. Their products are tailored to suit the market as it is today, not as it might be next season.

Nonetheless, the progress made by German fashion, at home and on world markets in recent years, can take some credit for helping to pull the country's textile industry out of the doldrums.

The industry began to show real signs of recovery in the second half of the 1970s, at about the same time as the world's fashion experts began to take more than a passing interest in what was on offer at the fashion houses of Berlin, Hamburg, Munich and Düsseldorf.

Of course, the industry has done much of the hard work itself. It has shed thousands of jobs and automated extensively, but it acknowledges that fashion designers have played an important part in what has been achieved.

Turnover in the textile industry has risen slowly over the past 15 years, from DM 25bn (\$94 bn) in 1970 to nearly

DM 35bn last year, up 5.7 per cent on 1983, and a marked improvement after five virtually flat years.

Herr Jörg von Netzer, head of international affairs at Gesamttextil, the West German textile federation, says that while the market overall remains sluggish, "fashion is an area where we can look for growth because it is always changing. We had great hopes in the golden age of chemical fibres, but that is now on a declining curve so we have to look elsewhere."

One of the major problems facing the industry, according to Herr von Netzer, is the copying of German textile designs abroad.

Imitation, of course, is the sincerest form of flattery, and it is ironic that designers in Italy, the home of imitable style and good taste, are apparently among the copycats — a point Herr von Netzer would doubtless like to make to Hugo Boss, a fast-growing fashion company based in Metzingen, near Stuttgart, and the place to go if one is an upwardly-mobile executive looking for understated style.

The company was set up in 1923 by Hugo Boss, who began by making men's workwear and boys' clothing. Today it is run by Boss's two grandsons,

Jochen and Owe Holy, both in their early forties, and more inclined towards Italian chic than workaday overalls.

Boss makes regular trips to Italy to keep an eye on the fashions there, and it imports 30 per cent of its material from Italy. Herr Gerd Fiedorff, head of Boss marketing, says that West German textiles are not fashionable enough to suit the company's style.

"We would like to buy more in West Germany because the industry here is more reliable, but the textiles are generally two or three seasons behind Italy."

Such remarks inevitably put the German textile industry on the defensive. Herr von Netzer, who disputes the extent of the fashion time-lag, concedes that the domestic industry must do more if potential customers like Boss, which buys around 3.5m metres of material a year, are dissatisfied with the home product. Nevertheless, he adds that German industry "has done quite a lot in the way of design. The fact that we are worth copying is a sign of that."

One of the problems, according to Herr Wolfgang Ley, president of the German Fashion Institute, and chief executive of Escada, is that West Germany's image fails to reflect its per-

formance. "West German design and fashion are far better than their reputation makes them out to be. It is an astonishing, but little-known fact that West Germany is the world's biggest exporter of women's clothing, lifting our image to match our actual performance is a challenge to all of us in the industry," he says.

Women's fashion in West Germany remains, for the most part, deliberate in its coordination and carefully-formed lines, aside from the work of a few of the country's top designers, who are beginning to chip away at the country's poor fashion image.

Manufacturers like Nino, Steilmann, Mondt and Escada, and the industry as a whole, have established an international reputation for delivering a high quality product on time. For the buyers, that is often more important than delivering haute couture, and once West Germany has managed to combine market reliability with high fashion on an international scale, its only remaining task will be to select a fashion capital. One can be sure that, unlike their political predecessors, they will not choose Bonn.

Sheila Jones

## Two pillars of publishing

MENTION the name of the late Axel Springer well outside West Germany and the chances are that people will know at once whom you mean.

But if you talk about Reinhard Mohn you may well get a blank stare. "Reinhard who...?"

At first glance this seems odd, even unfair. Both Springer and Mohn helped to create the post-war "economic miracle" in West Germany and in some respects they personified it.

Both men built up highly successful publishing empires. Indeed that of Mohn, the Bertelsmann group, has emerged as much the larger of the two.

In most other respects, however, the contrast between Springer and Mohn could hardly be greater.

Springer, who died in September at the age of 73, was a passionate conservative whose political convictions were vigorously — often stridently — voiced by his newspapers. In principle, much of what he had for looks unacceptable — the peaceful reunification of Germany, the rejection of totalitarianism and support for a social market economy.

Few Germans worked with as much dedication to the promotion of reconciliation with the Jewish people. In practice his views brought him into fierce conflict, above all with the rebellious, leftist young of the late 1960s and with the Ostpolitik of the Social Demo-

crat-Liberal Government in the 1970s.

Yet his opponents saw him as a "cold warrior," reactionary and manipulative.

Ironically, when the young Alex Springer began work amid the bombed ruins of Hamburg just after the war he was no political missionary. Indeed, he seems to have been almost apolitical.

His first success came when the occupying British forces gave him a licence to publish a radio programme periodical. It was *Hör Zu* (Listen In), now a

## The Media

JONATHAN CARR

family magazine as well as a television and radio guide with a weekly circulation of 3.3m.

In media terms Springer effected a revolution in 1952 with his *Bild* — a tabloid periodical such as the Germans had not had before, with lots of pictures, big headlines, little subtlety and huge drawing power.

Today it sells 5.3m copies daily.

But it was only with the acquisition of the up-market daily *Die Welt* in 1953 that Springer's political leanings began to emerge clearly. A few years later he had set up his 18-storey corporate head office

in West Berlin, a gesture of defiance to the Communists (it is close to the infamous Wall dividing the city) and a symbol of his hopes for a united Germany.

For all his business and political setbacks, as well as personal tragedy (his son took his own life five years ago), Springer has left a group owning some of Germany's best-selling publications and with a turnover last year of DM 2.4bn.

Bertelsmann, the house that Reinhard Mohn built up, is far bigger. Indeed, it is one of the world's largest media concerns, with 1984-85 turnover of nearly DM 7bn and net profits of DM 289m. It employs about 32,000 people in more than a score of countries and this year has organised concerts and conferences to celebrate its 150th anniversary.

Yet Mohn, who with his family owns nearly 90 per cent of Bertelsmann common stock, remains something of a mystery man. One reason is that, unlike Springer, he is not a newspaper magnate.

Bertelsmann does almost everything else you can think of in the media — books, records, video, satellite TV and, through its subsidiary Gruner and Jahr, owns popular magazines like *Stern*.

Taking over a modest business which began as a printer of hymnals and prayer books, Mohn (a fifth-generation member of the founding family) reformed the company's pat-

riarchal structure and generated astonishing growth.

Decentralisation of decision-making, a profit-sharing scheme and generous social benefits were all part of Mohn's strategy over more than three decades. Sometimes the group almost fell over itself in its helter-skelter progress.

But consolidation (as in the early 1980s) soon gave way to another leap forward. Following his own iron rule, Mohn stepped down as chief executive at the age of 80 in 1981; but he keeps a keen eye on the business as head of the supervisory board.

What is likely to be the future of these media groups which have been so decisively formed by the dedication and drive of two individuals?

Shortly before he died Axel Springer made a plan which partly opens his group to public ownership while continuing to safeguard its independence. 50 per cent of Springer's DM 170m capital has been placed in the form of "registered shares" with approved buyers, who can sell their holdings only with the consent of the group.

The master company, Axel Springer Germanische Verlagsgesellschaft, holds 28.1 per cent of the capital and the Burda publishing company another 24.9 per cent. That structure indicates a continued editorial thrust in the main group's publications such as Springer would have wished — for a time at least.

## Spreading the word world-wide

MARK TWAIN is probably not the only person to have grappled with the German language and concluded that to read and understand it "always remains an impossibility to a foreigner."

The complexities of its grammar, coupled with a jungle of rules governing the use of capital letters (78), hyphens (50) and commas (about 100), make German perhaps one of the least enticing to learn as a foreign language.

Even Goethe, a major influence on German linguistic development, is reported to have preferred reading his own works in French in the latter stages of his life, because he found it easier.

Goethe's name, notwithstanding, is today at the forefront of a campaign to revive the use of the German language worldwide, or at least to halt the decline in its use. Such is the concern in West Germany, that Chancellor Helmut Kohl ordered a special report on the subject earlier this year, after promising in his 1983 inaugural speech, to "undertake new efforts to make the German language more widely known abroad."

Part of the offensive involves the teaching of German to thousands of foreigners all over the world. The Bonn Government last year provided

DM200m to the Goethe Institute, a language and cultural organisation with 150 schools worldwide. Its task is to spread the word — auf Deutsch.

The Goethe Institute has taught German to more than 3m people since it was set up in 1951. At the moment, it is involved in making a film, and a television series, to promote the

## Language issues

SHEILA JONES

German language worldwide.

There was a time, not so long ago, when no such promotional activity was necessary. In the 1920s, and earlier, German was a dominant language among scholars of philosophy, science and theology, not least because many of the influential thinkers of the day were German.

Even then, however, the Germans themselves were not immune from the sheer horridness of some of their grammatical constructions and the linguistic tricks many foreigners believe are designed to confuse them. An oft-cited example of the trouble one can get into by using capital letters in the wrong place (or worse still, by

not using them at all), is the sentence "Ich habe in Berlin Liebe Genossen" meaning "I have dear comrades in Berlin." Switch the capitals (Liebe and Genossen) as opposed to Bonn and Berlin), and one has "Ich habe in Berlin Liebe genossen" or "I have enjoyed love in Berlin."

The capitals question remains unresolved. The East Germans are thought to be ready to give them up, while the West Germans have yet to make up their minds.

Meanwhile, the teaching of the language as a whole, continues to decline abroad. In the past 10 to 15 years, school curricula reforms in western Europe have put less emphasis on the arts, including languages, and more on commercial and technical schooling.

German is still the native tongue of 80m people in Europe, although the number is falling. About 15m children and students worldwide learn German as a foreign language, while in 1979, the figure was nearer 17m.

In the U.S., only 1.3m out of 40m citizens of German descent still speak German. Among U.S. high school students, about 2m study Spanish, 1m French, and about 300,000 German. In the UK, around 75 per cent of O-level language students take French, while about 20 per cent take German.

According to the latest available figures, 155,000 UK students took French O-level in 1983, and 48,000 took German. The gap narrows slightly among A-level and university students, and a growing number of adults learn German later in life, often for professional reasons.

The concern in West Germany is not a straightforward matter of how many foreigners can speak German. The Bonn Government would like the teaching of German abroad to help to create a sympathy with Germany, and to foster a high regard for the country as a cultural and linguistic centre — the latter being based on the assumption that people who speak German are more likely to buy German.

But it can take little comfort from the words of Mrs Hertha Stephan, president of the U.S. Association of Teachers of German, who remarked recently that "German to us is a kind of latter-day Latin." However, that view is probably less alarming than the conclusions drawn by Mark Twain, the story that Emperor Charles V, who presided over the many-tongued Spanish empire, 400 years ago, spoke Spanish to his wife, French to his cook, Italian to his mistress and German to his horse.



# SECTION II - COMPANIES AND MARKETS

## FINANCIAL TIMES

Monday October 28 1985



### EURONOTES AND CREDITS

## News International launch splashes out

BY PETER MONTAGNON IN LONDON

MR RUPERT MURDOCH'S News International has made a splash in the Euronote market with the launch of a facility adding \$320m to the \$350m deal signed last year.

Launched last week through Citicorp, the borrowing is designed to finance Mr Murdoch's acquisitions, already announced, of Twentieth Century-Fox Film Corporation and Metromedia, the U.S. television network.

In striking contrast to many recent offerings in the Euronote market, the deal also bears a generous facility fee of 20 basis points, the same as that on last year's borrowing. Other terms are unchanged including the maturity of 1993 and margins on the backstop credit of 30 basis points in the first four years, rising to 40 points thereafter.

The difference is that an option to issue Euronotes has been added which will now apply to the former deal as well. Previously News International was able to raise funds under the facility only by calling on banks to bid for short-term advances.

The change testifies to the speed with which the Euronote market has developed in just one year. When it launched its original \$350m deal, News International would not have been regarded as an eligible name for the Euronote market. Now it clearly is, although it will still be depending mainly on banks to buy paper sold under the deal.

Mr Murdoch's deal has in any case done the market a great favour by distracting attention from the conscience struggle banks have been having over two much more finely priced operations from top-rated international names - Broken Hill Proprietary, the Australian resources and energy group, and British Petroleum.

In BHP's case enough banks have now given in to ensure that the \$700m standby portion of its \$1bn facility is now fully subscribed despite its low commitment fee of just 4 basis points. Interest from U.S. banks is thought to have been limited, however, while perhaps as much as half the total has been taken by Japanese institutions.

BP will have to wait until banks submit offers for its \$6.5bn total financing on November 1 before it knows its fate. It is arranging the deal itself, which makes a subtle psychological difference from BHP, bankers say. In BP's case banks are having to set their own terms through a bidding process which must assume will produce cut-throat conditions. That is harder for a bank to do voluntarily than allowing itself to be dragged into an established deal with pre-set terms.

Elsewhere, the market is barely ticking over on a limited number of smaller deals including a \$125m facility, also led by Citicorp, for Nokia, the Finnish industrial corporation. This seven-year deal includes a \$50m revolving credit facility bearing a commitment fee of 1/4 per cent and a margin over Libor of 1 3/4 basis points.

Under the facility Nokia will be able to issue Euronotes, short-term advances and sterling bankers' acceptances for which Seacombe Marshall, the discount house controlled by Citicorp, will act as discount agent, producing a new synergy within the group.

Korea Development Bank is to be the next borrower to tap the Euronote credit market with a \$300m deal bearing interest at a margin of 1/4 per cent for four years and 1/2 for the next four. These are slightly finer terms than on Korea's previous borrowing in this market, a concession which is thought to reflect the very fine conditions wrung out of the market by Thailand on a \$700m deal last month. The deal was due to be mandated to a group of 10 co-ordinating banks in Hong Kong at the weekend.

Vneshtorgbank, the Soviet foreign trade bank, is also back in the market with a \$100m, eight-year credit led by Credito Italiano. The credit bears a margin of 1/4 per cent over Libor for eight years.

### INTERNATIONAL BONDS

## Many sectors troubled after volatile week

BY MAGGIE URRY IN LONDON

LAST week's volatile activity in the bond market left one dealer commenting, "Well, I wouldn't call it fun."

By the weekend most currency sectors of the market were looking in poor shape - U.S. dollars, Canadian and New Zealand dollars, D-Marks and worst of all, Euronotes. The fall in the Euronote market followed the sharp drop in the Tokyo government bond market towards the end of last week.

Traders arrived at their desks on Friday morning to find turmoil, and most of the 22 market-makers decided not to open their books that day. Only six or seven houses were trading at all.

There was some criticism of the other firms. "They should have been trading to demonstrate that there is some maturity in this market," said one dealer.

The ripples from the Euronote market spread outwards, further unsettling other markets. The Euro-

dollar sector was hit on Friday as the New York bond market opened weaker, and new issue prices dropped by half a point.

Even the good deals, for top-quality names like IBM and Unilever, were suffering although still trading within fees. However, these had shown that there was demand for such names.

Only the floater market was doing well, and on Friday four issues were launched, of which three were increased. Three were for U.S. banks, and investors can expect a lot more paper from this source as the banks move to improve their capital ratios. The question is whether the market will tire of the surf.

The issues for Great Lakes and Chase Manhattan both used the delayed cap idea, where a maximum coupon in each case of 13 1/2 per cent, comes into play after three years. There is demand for such issues, but it is limited.

Citicorp's deal was last to appear

### EUROMARKET TURNOVER

Turnover (\$m)

Primary Market	Strights	Conv	FRN	Other
U.S.\$	1,788.2	—	224.8	128.5
Prev	3,550.2	—	351.5	338.5
Other	1,511.2	59.1	1,317.0	88.1
Prev	1,259.2	0.1	866.7	101.4

### Secondary Market

U.S.\$	11,488.2	1,087.4	12,115.3	1,329.8
Prev	13,223.3	1,011.5	10,103.2	1,871.2
Other	4,050.3	188.0	1,218.0	1,670.3
Prev	3,850.1	85.3	1,104.8	1,634.0

Week to October 24 1985 Source: AED

and was not increased, although after the success of its last deal at the beginning of the month, the borrower may well wish to raise this one too. Both deals pay the same spread over one-month London interbank bid rate (Libid), but the new one has a 50-year life. "I think they are

pushing it a bit far this time," said one syndicate manager.

Swiss bankers have had plenty to think about since M. Pierre Languetin of the Swiss National Bank, dropped his bombshell last week. If the National Bank does decide to allow non-Swiss domiciled banks to lead Swiss franc bond issues - in effect opening a Euro-Swiss franc market - the Swiss banks could suffer a severe loss of business, even if commissions were not forced down.

Judging by the recent activity in swap-driven Swiss franc deals for U.S. borrowers, there could be more than sufficient mandates for non-Swiss based banks. However unless those banks can develop placing power of their own, they will have to rely on the Swiss banks for distribution.

The oversupply of new paper in the Swiss franc market has caused weakness in the secondary market, although it seemed to be stabilising.

Italy made its first public bond issue in Switzerland on Friday, picking Sottic to launch a 20-year zero coupon deal.

The D-Mark market has continued to shudder under the weight of new issues with another six deals totalling DM 1,515bn coming last week. Traders are now beginning to worry what the November calendar could bring if banks do not exercise some restraint in putting deals on the list. The secondary market fell by around two points on average last week, with some new issues dropping by as much as four points.

Morgan Guaranty's debut as a lead manager in the market with R. J. Reynolds could not have come at a worse time, but the issue was seen to be holding within its 2 1/2 per cent fees while most of the other deals last week were bid at a three-point discount by the weekend.

Almost all the Canadian and New Zealand dollar issues launched last week were trading outside their

### BHF Bank bond average

Oct 25	Previous
103.988	104.116
High	1985
105.603	Low
	99.840

fees by the weekend. Swedish Export Credit's New Zealand dollar issue from the previous week was five points adrift of its issue price.

One of the successes of the week was the Alliance and Leicester building society's Eurosterling floater. Since the building societies started tapping this market in September, a total of £225m has been raised, forming more than 20 per cent of the Eurosterling floater market. The learning curve has been steep and lead manager Warburg seems to have hit the right combination with a 1/4 margin over London interbank offered rate with lower front end fees and a fixing of the first coupon.

## TI faces gloomy future

BY LOUISE KEHOE IN SAN FRANCISCO

TEXAS INSTRUMENTS, the U.S. semiconductor manufacturer, took another bruising fall last week with the announcement of huge third-quarter losses, more layoffs and plant closures as the company's new president embarked on a series of "strategic reviews."

Announcing third-quarter losses of \$83m, Mr. Jerry R. Jenkins, president and chief executive, provided a grim view of short-term prospects for the largest U.S. chip maker. "The extended period of market weakness has resulted in the steady decline of TI's semiconductor sales," Mr. Jenkins said. TI's sales had fallen faster than those of most U.S. chip makers, he said, "because of product and geographic mix." TI's heavy involvement in the highly competitive memory chip business has accentuated its semiconductor losses.

The company sees little hope of an improvement in semiconductor sales during the current quarter. On Friday, TI made 2,200 workers redundant in its semiconductor and computer operations, bringing the number of jobs it has cut this year to over 7,000. TI still has around 7,800 workers in its world-wide operations.

Cost reductions from the closure of an assembly and test operations in El Salvador, a chip production plant in Houston, Texas and a computer production plant in Texas, "will not return the company to profitability in the short term," Mr. Jenkins said. TI's computer operations, which represent about 30 per cent of revenues, also suffered. The company's range of office automation products did not stand up well to competition. Shipments for the first nine

months of 1985 were below year-ago levels. In an effort to make its business personal computers profitable, TI consolidated its Texas operations from four to two sites, at a cost saving of \$70m a year.

Its traditional geophysical operations in oil and gas exploration broke even during the third quarter following earlier cuts in this division.

Defence electronics, which makes up a third of all TI business, provided a steady source of badly needed income. Although sales were flat, the company's backlog of orders booked has substantially increased.

Sales were down for the third quarter from \$1.4bn last year to \$1.2bn and significantly reduced for the first nine months from \$4.2bn to \$3.7bn.

## Noranda loss cut by disposals

BY BERNARD SIMON IN TORONTO

ASSET disposals contained the third-quarter loss of Noranda, the debt-laden Canadian mining, forest products and industrial group, to \$30.8m (U.S.\$22.5m), or 33 cents a share, compared with a \$38.4m loss, or 37 cents, a year earlier.

The sale of Noranda's 31 per cent stake in Placer Development, the Vancouver-based mining group, contributed to "investment income" of \$153.9m in the latest period. On the other hand, the company said it had provided \$315m before tax for the reduced value of certain allied enterprise assets. Revenues rose from \$574.5m to \$578.2m.

Depressed metal prices were the chief cause of the third-quarter loss, and interest payments totalled \$35.4m.

Earnings from metals and minerals (mainly zinc) in the first nine months of 1985 were only 26 per

cent of levels a year earlier. Manufacturing operations were also in the red, as depressed aluminium prices offset improved earnings from copper fabrication.

Forest products were "marginally profitable." Noranda has a 39 per cent interest in the West Coast timber producer Macmillan Bloedel.

Noranda, which has debts of about \$3.7bn, predicted further losses in the current quarter but said that these might be offset by the proceeds of more asset sales.

The Canadian nickel producer Falconbridge reported almost unchanged earnings of \$3.7m, or 9 cents a share, in the three months to September 30. Revenues rose from \$317.3m to \$320.6m, due mainly to larger purchases of nickel from outside sources.

Third-quarter income was depressed by low nickel prices and by

"other charges" of \$36.6m, including the cost of layoffs at the company's facilities at Sudbury, Northern Ontario.

Alcan Aluminium, fighting continued low profits and an uncertain outlook for aluminium prices, has cut its quarterly dividend from 30 cents to 20 cents.

The reduction was widely expected in the industry. Last week Alcan reported third-quarter earnings of \$7m, or 7 cents a share, against \$32m, or 53 cents a year earlier.

Nine-month earnings were \$32m, or 32 cents, against \$233m, or \$2.39, a year earlier.

All large North American aluminium producers have reported a similar drop in profits this year, mainly because of low ingot prices, surplus capacity and the high U.S. dollar. Domestic demand, however, has remained relatively strong.

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FINANCIAL TIMES CONFERENCES

## INTL. COMPANIES & FINANCE

### SGS broadens its horizons

BY WILLIAM DUFFORCE IN GENEVA

SOCIÉTÉ GÉNÉRALE DE SURVEILLANCE (SGS) is a successful multinational with such unassuming origins that they put today's anxieties about innovation and the generation of new enterprises into perspective.

M. Henri Goldstuck, a young Baltic refugee who had fled from conscription in the Tsar's army, found work about 110 years ago with a merchant in Rouen supplying oats for smart stables in Paris.

Noticing the losses incurred by poor handling and storage and the lack of quality control, he persuaded his employer to pay him a commission on the savings he could realise by putting matters right. Before the First World War he had made enough money to be able to finance the Monte Carlo Rally.

After the war, in 1919, he founded the Société Générale de Surveillance, in Geneva, with a number of partners. SGS is now the largest privately owned control and inspection company in the world with a turnover expected to reach SwFr 1.5bn (\$700m) this year.

SGS employs 18,000 people, of whom only about 300 work in the head office in Geneva. The rest are found across all five continents — the group operates 118 laboratories and 300 offices in 140 countries.

#### Grains origin still reflected

SGS generated operating income of SwFr 118m from consolidated revenues of SwFr 1.15bn in 1984. M. Marc-André Charguéraud, chairman and chief executive, hazards a guess that this year's net earnings will exceed the SwFr 81m achieved last year.

The epitome of a services enterprise, SGS offers customers protection against losses by inspecting and controlling the quality and quantity of the goods they buy and their transportation.

Its origin in the grains trade is still reflected in the agricultural side of its business, except that it now covers about 250 commodities and products. It supervises their loading and discharge, controls weights, inspects them for cleanliness in warehouses, ships' holds, railway cars and trucks and takes samples to check their quality by analysis in its laboratories.

Agricultural products are just one of four divisions into which group activities are divided. The

other three cover natural resources, industrial and consumer goods, and services in banking and insurance.

The natural resources division supervises the transportation of bulk products, including coal and minerals, chemicals and metallurgical products. Petroleum and petrochemicals. It is responsible for inspecting about a quarter of the 800m tons of coal marketed annually in the U.S. and it has several major oil companies among its customers.

A speciality of the industrial and consumer products division is the "non-destructive testing" of nuclear and other power stations, oil pipelines and offshore platforms. Other functions include the testing of materials, factory inspection and the supervision of industrial projects on site.

Textiles and clothing, household appliances, toys and electrical equipment are among consumer products inspected. Control usually takes place on the finished goods before delivery to the buyer.

The services offered to bankers and insurers include damage assessment, asset evaluation, the certifying of stocks and auditing. This is the newest and smallest division but SGS's determination to make its mark in this sector was illustrated by the takeover of GAB Business Services from UAL in the U.S. last July. GAB had a 1984 turnover of \$192m and specialises in damage assessment for insurance companies.

The certificates and inspection reports issued by SGS are recognised worldwide by importers, exporters, banks and government agencies and are frequently essential instruments for claiming payments or opening lines of credit.

In September, 1984 SGS saw the price of its shares dip when it was "sucked" by the Nigerian government, which appeared to result from domestic political

differences and, according to SGS, accounts have been amicably settled.

The share price recovered quickly and the group demonstrated its strength by picking up new contracts with Ecuador, Indonesia and Mexico. SGS has contracts with 19 governments, usually for the supervision of imports and exports, but this type of business provides less than 15 per cent of consolidated revenues.

SGS has accelerated its growth and penetration into new geographical and product business areas in recent years. The more aggressive approach is attributed to M. Charguéraud. Consolidated revenues have increased by an average of 12.2 per cent a year since 1979, while operating profit has climbed by 16.7 per cent. Earnings per share rose from SwFr85.70 in 1979 to SwFr215.70 in 1984, and shareholders have seen dividends grow from an adjusted SwFr20.8 to SwFr70 during the same period.

#### Penetration of U.S. market

Close to half present revenues, according to SGS, derive from services which did not exist, or were just emerging, 15 years ago, and most of them are said to provide higher profit margins than older business lines.

A feature of recent expansion has been the penetration of the U.S. market. Before its recent coup in taking over GAB Business Services, SGS had bought and incorporated United States Testing Company and Commercial testing and Engineering Company, which was the leader in the coal inspection business, during the past three years.

Sales in North America made up only 3 to 4 per cent of group turnover in 1979. Last year they were approaching 30 per cent and, depending on the dollar rate, they will reach between 35 and 40 per cent in 1985.

In each of its U.S. business lines, SGS believes that it is either the market leader or in second place. It is the largest in coal and minerals, in agricultural products and in loss adjusting. It is first or second in industrial inspection and second in petroleum and petrochemicals and insurance appraisals.

Some Swiss analysts have queried the growing dependence on the U.S., seeing it as increas-

ing SGS's sensitivity to fluctuations in the dollar/Swiss franc exchange rate. SGS also prices and quotes its services extensively in dollars.

About 40 per cent of SGS's operating profits are generated in the U.S. M. Charguéraud points out that all acquisitions have been paid for out of cash flow and that the U.S. operations make up an insulated unit.

The first of two \$50m convertible bond issues floated in 1983 and 1984 was originally intended to finance group investments in the U.S. However, the proceeds of the two bonds have been used to swell extraordinary financial income.

Another feature of SGS's recent expansion has been its arrival on the Geneva and Zurich stock exchanges. About one-third of stock is registered shares which are mostly held by about 100 descendants of the founding families and managing staff. Union Bank of Switzerland, with about 10 per cent, is the largest single shareholder.

Two-thirds comprise non-voting "bons de jouissance" without nominal value which are traded in Geneva and Zurich. Initially the market base was rather thin, but SGS shares are among the most heavily traded in Geneva.

Last March, interest in the stock was stimulated by the issue to the public of 30,000 registered shares at SwFr3,780.

M. Charguéraud thinks that a payout of 35 to 40 per cent of net profits "seems reasonable" but that the board should not be boxed in. At one time the dividend payment was about half this ratio.

SGS's largest competitors are government-owned agencies — the main privately-owned competitors restrict business to narrower fields. M. Charguéraud believes the group derives advantages both from its independence and its worldwide spread in goods and geography, which help smooth out trade fluctuations.

The worldwide network also enables SGS to offer customers such as major oil companies service at short notice almost anywhere on the globe.

The group has been investing heavily in laboratories in the past few years, which indicates that its appetite for expansion is not yet satiated. M. Charguéraud's estimates that while trade in grains and minerals remains fairly flat, he will be looking for more business in finance and insurance, consumer goods and petrochemicals.

#### SOCIÉTÉ GÉNÉRALE DE SURVEILLANCE

For the year ending 1984

	SwFr
Revenues	1,150m
Operating profit	118m
Net profit	81m
Balance sheet total	1,180m
Fixed assets	232m
Current assets	950m
Of which cash and equivalent	549m
Shareholders' equity	294m
Long-term debt	327m
Short-term debt	418m

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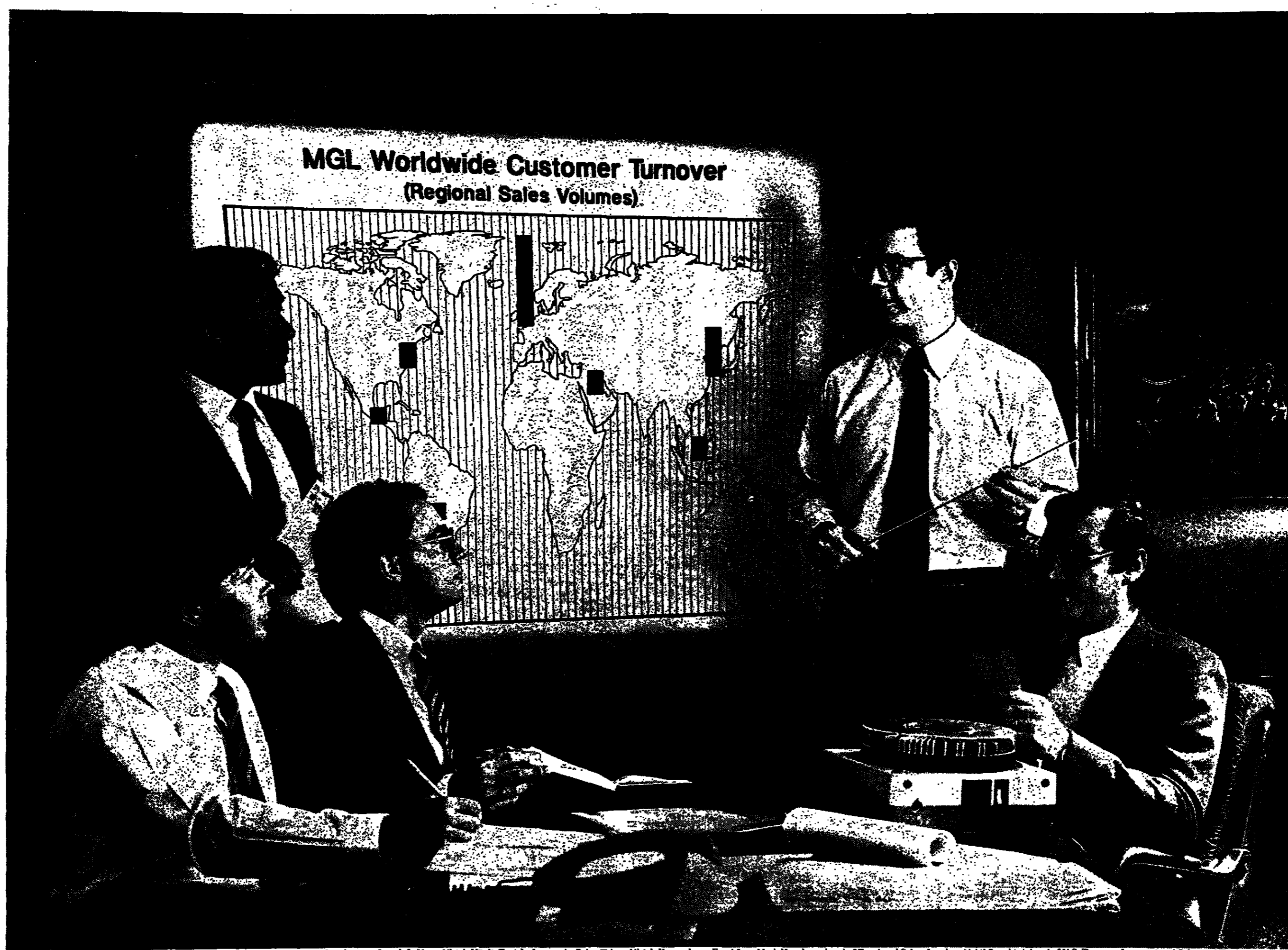
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## FINANCIAL TIMES SURVEY

Monday October 28 1985

The UK leisure industry has grown rapidly and is set to expand further. So complex is the sector, however, that those wishing to start a business often have difficulty raising finance. The failure rate for businesses is also high, for the industry is traditionally vulnerable to fast-changing fashions.

## The right formula yields rich rewards

BY ARTHUR SANDLES

LEISURE, ALWAYS an object of aspiration, is now an object of investment. That is not to say that, as a sector, it is understood by investors. Leisure is such an all-embracing term, and the body of its practitioners so entrepreneurial a group, that the leisure business frightens many who look at it.

At its most basic, leisure is that area of human activity which consumes disposable time and disposable money. Given that broad canvas, almost any product or activity can be placed within it. A meal may be a necessity, but what of a meal with table cloth, a glass of wine and waiter service? Some means of transport may be regarded as a basic requirement in western society, but start adding a sunroof, in-car hi-fi or even a digital clock, is this not leisure expenditure?

This survey will confine itself to the more obvious forms of leisure — holidaymaking, hotels, eating out and what are traditionally known as "leisure activities." It should not be forgotten, however, that leisure expenditure in these terms is often in competition with domestic hardware, such as video and compact disc systems, with house extensions and new cars.

The essential element of the leisure business is that all spending in it is discretionary. In other words, a person who decides they really need a new coat may then face a choice of which coat. That same person faced with a decision of whether or not to go to a disco-

theque, the cinema, a squash court or a smart restaurant for the evening may decide to stay sleeping at home and neither starve nor freeze as a result.

Given a fairly wide definition it is estimated that in excess of £50bn is spent on leisure annually in Britain. By any measure this is a substantial amount and one which most examinations suggest is likely to grow.

Indeed, the evidence of that growth is already widely apparent. High streets continue to sprout new fast food and themed food outlets. The shelves of news stands grow more burdened with their weight of ever more magazines serving specialist leisure areas: Hotels change hands at spiralling prices. New time-share developments, discotheques, theme parks and sports centres sprout around the country.

Estimates of the numbers employed in leisure vary considerably, but the total directly owing their jobs to the pursuit of pleasure in the UK is likely to be around 1.5m. If one looks at leisure related industries — the farmers who grow the restaurant food, the factory that makes the hotel china — the figure may well double. It could be that a fifth of all British labour relies for its work on other people's leisure.

It is a growth of which the Government seems suddenly to have become aware, and which is likely, therefore, to be encouraged. Certainly changes

in shop trading hours and relaxations in the licensing rules would seem likely to provide a considerable fillip to some aspects of leisure.

The movement of tourism from the umbrella of the Department of Trade to Employment may also augur moves to aid the industry directly and, via further encouragement of small business, indirectly. Promised moves to ease the difficulties of planning permissions may also help in some fields, notably hotel development.

For all these encouraging signs so diffused is the leisure business and so many are its complexities, that often its participants have considerable problems in raising the necessary finance. What is true, of course, is that these participants, particularly those operating in a highly entrepreneurial field of small leisure enterprises, where failure seems as common as success, may not always look the neatly dressed image of the ideal borrower.

For example, it is thought that in England alone tourism related projects worth more than £590m are under construction at the moment, and that the total UK figure may well be nearer £1bn. And yet, according to the British Tourist Authority's director of international activities, Mr Frank Kelly, "Raising finance for new tourism investment is more difficult than for other development propositions."

Says Mr Kelly: "The City

supporters publicly listed hotel and leisure groups, but institutional finance for private companies is less forthcoming."

The wariness of traditional sources of finance about the leisure industries has led to the development of two major features in the industry — the involvement of public funding in some form, particularly with seed money and planning help, and the growth of investment intermediaries of various forms from consultancies through to leisure conglomerates who act as a funnel for investment themselves.

"The leisure industries are highly diverse, vulnerable to fast changing fashions and dependent for their success on local management and marketing skills," says Mr James Williams, a partner of surveyors Drivers Jonas. "This does present problems in raising private sector finance."

It is not, however, a problem which is being ignored. Using what is called "section four" (of the Development of Tourism Act) money national tourist boards have been major stimulators of leisure developments in recent years and there are signs of a much more targeted approach to the subject developing at the moment. Local authorities are much

more aware of the returns from tourism investment and are increasing working with private investors to develop or revive tourist attractions.

It is still the case, however, that the brightest of ideas can sometimes need a great deal of hard work before they come to fruition. The Jorvik Viking Centre which opened last year has leapt into the UK top ten fee paying attractions league, but there was no great rush to be the one source to put the £2.6m that was needed for what might now seem an inevitable commercial success.

York Archeological Trust raised the money, including the maximum £250,000 from the English Tourist Board, from a series of grants, private donations and bank loans. Clearly, with perhaps more than 1.3m people already having seen the centre, the spin off for the traders, rate-payers and work-seekers of York has been considerable.

It would nevertheless be foolish to suggest that here is a crock of gold which the investment world has been foolish to ignore in the past, and which is still brimming with rewards for the most casual of investor. Many fields of leisure have long since been identified as growth markets

and in most of them the competition is fierce and the casualty rate high.

As the aptly named Leisure Consultants Organisation recently commented in producing its predictions for the next few years: "Our concern about the danger of over-investment in leisure facilities on the grounds of job creation stems partly from the fact that many leisure markets already face a period of consolidation and rationalisation. After a couple of years of good growth, consumer spending is expanding more slowly. Meanwhile, the greater attention being paid to leisure is drawing more companies and individual operators into the leisure business."

Leisure Consultants is quick to point out that the background against which the leisure markets are developing is itself changing. There are continuing regional and social differences in affluence and attitudes. The number of teenagers is declining sharply while the number of 25-44 year olds is rising. Leisure interests are fragmenting and fashion is playing a much greater role. Health and informality are major current themes. And there is a growing need for participation as well as entertainment.

One of the most active investment organisations in the field, Aspect Leisure, endorses these views and adds: "Tastes and expectations are changing. The customer is increasingly knowledgeable. Overseas holidays have broadened aspirations and raised expected standards."

There is a discernible trend towards leisure activities that invite participation and the acquisition of skills as well as providing entertainment. "Above all, there is an insistent demand for evident value for money."

The impact of changes in the market environment can be seen throughout our daily lives. There has been a relative decline in spectator sport while many participatory sports are enjoying a boom. From clothing shops to supermarkets shelves, and certainly in restaurants, the "health kick" is showing itself in what people choose to wear and eat.

It is clear, that since the leisure industry as such is a relatively young thing, the development phase is likely to see as much pain as it does pleasure. From dance studios to video shops, from take-away foods to wine bars there are as many stories of failure as success. The identifying feature of the failures, many comment-

tors would say, however, is the lack of professionalism.

In one of the biggest single areas of leisure, the package tour business, that professionalism is currently being put to the test. The Thomson/Inntasua battle is a classic for an entrepreneurial business which is about to come of age. As these two fight for massively increased market shares, cutting prices and giving wide and potentially expensive promises to their customers, so the lesser corporate mortals are driven to self-examination and perhaps to the wall.

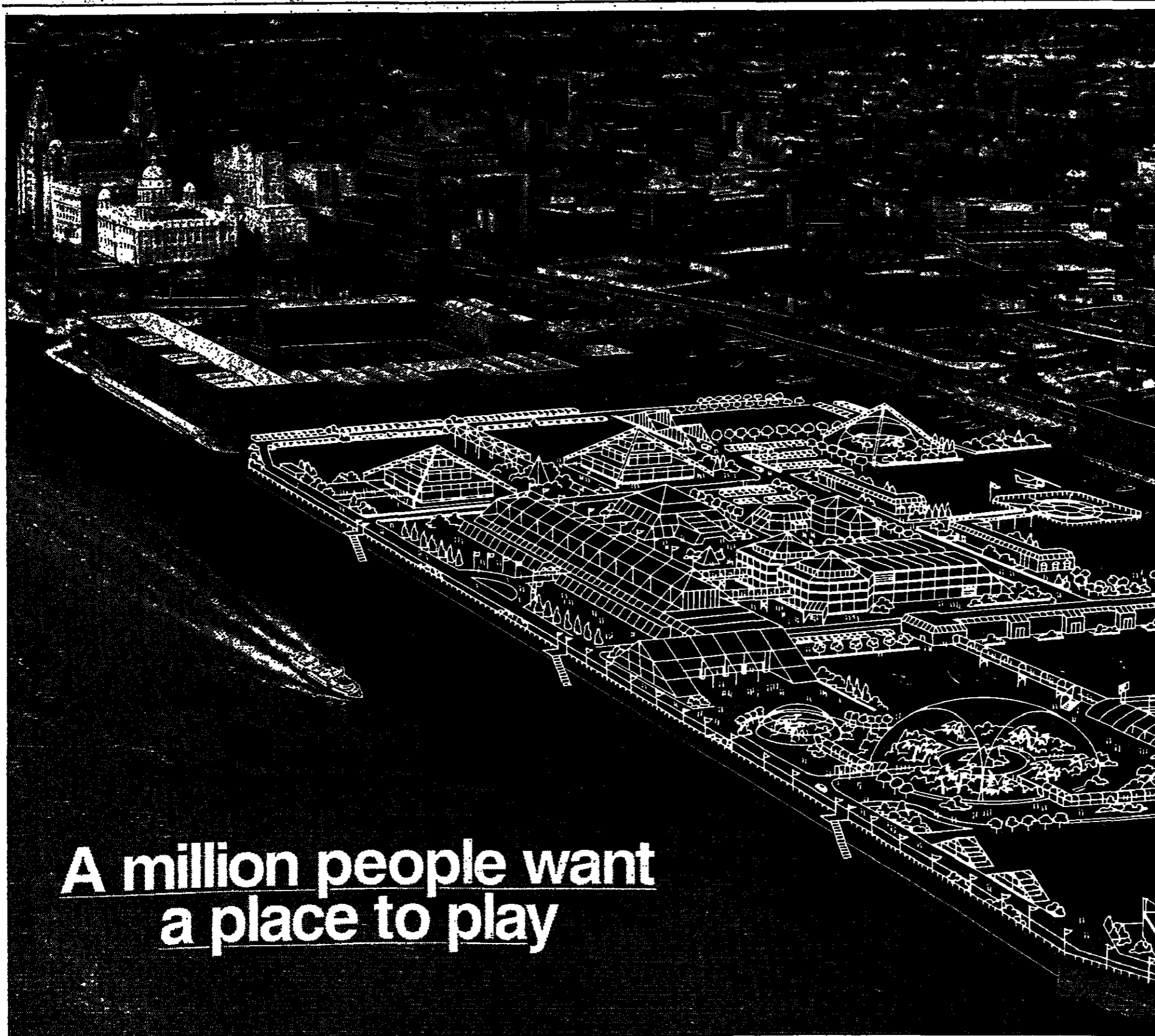
The rewards in this battle are likely to be considerable, but the field may be strewn with as much blood as money once it is over.

Leisure generally might similarly be thought to be coming of age. Certainly the new breed of specialist which has sprung up to service the industry is keen to say so (some of these "new" boys are, like Lord Delfont of First Leisure, long established but quick enough on their feet to be at the forefront of current trends).

"Good management backed by first class research and marketing is the key to success in the leisure industry," says Aspect Leisure. "It is the essential measure of the good investment."



LEFT: McDonald's fast food restaurant. Franchising is one of the UK's most successful retail sectors. RIGHT: Gleneagles Club gym at the Piccadilly Hotel. London. Growth is forecast for the health and fitness market



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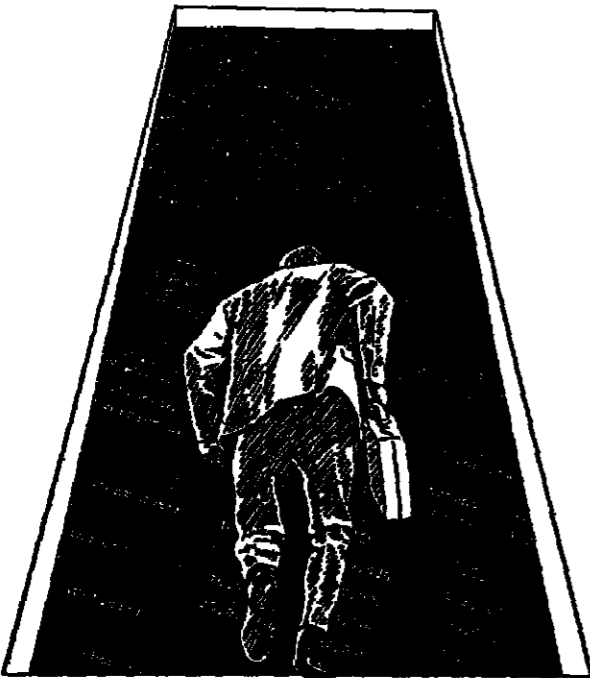
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## Good prospects for investment

## Hotels

ARTHUR SANDLES

"JUST ABOUT every hotel is for sale if you want it—at a price," the man from consultancy Horwath and Horwath had the hint of a twinkle in his eye as he made the statement for the catch is indeed the price.

To build a new hotel in London at the moment would involve a cost fairly generally estimated at £150,000 a room at least. To buy one on a good site and in good condition would not cost very much less.

Even modest properties requiring considerable refurbishment are now on the market for £70,000 to £100,000 a room. But, only a decade ago, eye-brows were raised when the inter-continental was built for a reported £30,000-plus.

Almost every year for the past 30, commentators have been saying that the cost of acquisition and building throughout the UK, but particularly in London, is too high. Each year, with only the occasional hiccup, the queue of buyers has proved that the price ceiling has not been reached and that although room rates have been rising considerably faster than inflation there is still a demand for accommodation.

The queue for investment in London has several driving forces behind it. And the very top end of the market there is the perceived need on the part of the international hotel chains to have a presence in the UK.

In recent years, foreign operators from Marriott to Hyatt, Novotel to Taj have all nudged their way into the market places without a new brick having been put in place.

At the same time, in many sectors of the business, a hotel is seen as a very valuable asset, and one which it may well be worth taking a reduced return from while the basic value increases rapidly.

"London's unique position as one of the world's major centres for tourism and commerce leads many hotel chains to feel that without a London presence they cannot be considered truly international," says another consultancy, Panell Kerr Gunster. As long as the present planning constraints remain, little new stock can be added to London's hotels.

"Thus hotels change hands at a cost which sacrifices immediate returns on investment. Clearly the purchaser feels confident that he will achieve a good return throughout appreciation in the value of the property."

There is every sign that in the past few months at least a great many hotels have moved much closer to getting a reasonable return on their investment than in the past—even at current property values. This has been achieved in three ways.

Published tariffs have been raised (prices rose by 20 per cent a year between 1976 and 1984 compared with an inflation rate of 11 per cent and may have increased by a further 7.12 per cent this year); achieved rates have increased much more sharply as hotels have cut discounts to tour operators; and occupancy levels have increased.

It must be said that these increases have not taken place without some adverse comment. Recently Caterer & Hotelkeeper did its own review of the industry and came to the conclusion: "In revenue terms, aggressive pricing undoubtedly was beneficial to UK hoteliers in the mid and late 1980s resulting in substantial gains in revenue."

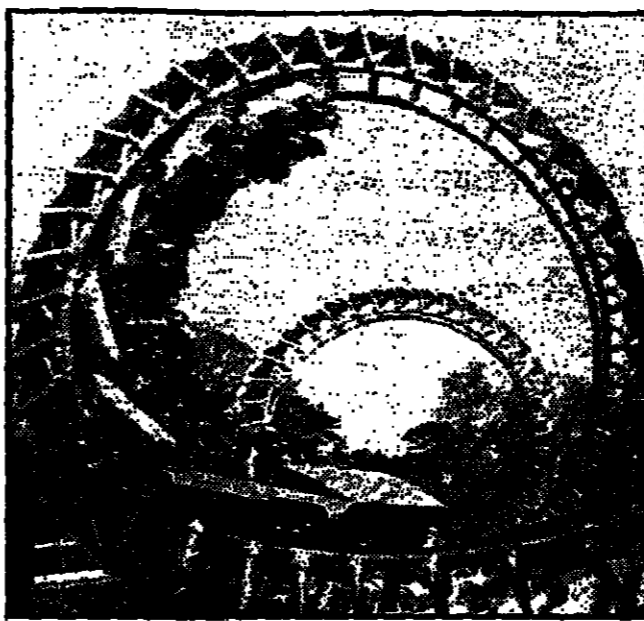
"The high cost of accommodation in the UK has now reached the point, however, where any further increases in overall tariffs will lead to a net loss in revenue for the industry as a whole."

Whatever individual responses to this might be there is little sign that "the industry as a whole" shares that view. Activity on the hotel sale and purchase market is as active as ever and there is little sign as yet of a softening in rates.

Indeed commenting on the hotel sector in general (and Mount Charlotte in particular) recently brokers Capel-Cure Myers said this to say: "We maintain that the supply of hotels in London and to ascertain extent in the provinces limited (due to the non-availability of sites and the expense of green field developments), and demand strong, the future for the UK hotel industry remains bright."

"We believe that even if sterling were to strengthen to say the £1.60 level, the UK would still be perceived as a cheap holiday destination by most North American visitors. Consequently we take the view that demand for bedspaces in 1986 will remain strong and margins will improve."

## The Leisure Industry 2



## Heavy outlays needed

## Theme Parks

ARTHUR SANDLES

WALT DISNEY really started something when he opened Disney land on a scrubby unwanted piece of land some miles south of Los Angeles. He proved what some might say is the obvious—the people were prepared to pay fairly heavily to spend a day in a centre which offered a full range of high quality entertainment for the family. The theme park was born.

As many imitators have found over the years to their cost, with Britain's Britannia Park the most recent casualty, there is a great deal more to success in the business than a good idea and a reasonable catchment area.

The planning has to be meticulous and the customers be rewarded with more than their entrance fee. The essence of the game is huge up-front investment and the ability to adapt and adjust, and continue to invest, as tastes change and visitors look for new attractions on repeat visits.

There is no doubt that the Britannia Park episode will have a considerable impact on the willingness of investors to become involved in such large-scale projects. Once again, as Disney scours Spain for a site for his first European operation, it is clear that a country like the UK, that has a less than certain sunshine record is not the ideal setting for a huge outdoor year-round attraction.

It could be argued that even the successful operations in the UK had something of a flying start. Thorpe Park, a watery extravaganza to the south west of London, had its origins in the left-over holes from quarrying. There was a gradual move from water sports to full blown public entertainment.

Mr John Broome's Alton Towers is centred around a stately home and grown successfully but relatively gently

from this base. Alton Towers not only serves to demonstrate what careful planning can achieve but also, with rides costing hundreds of thousands of pounds, what level of investment is required. Mr Broome has certainly proved that theme park can work in the UK but the obstacle of the huge amounts of cash needed—there is talk of £100m initially for the remarkable plan to transform the former Corby steel works into Wonderworld and twice that to bring it up to the proposed level of sophistication—are seen as a major obstacle.

"For a theme park to be successful," says Mr James Smith of Driven Jones, the surveyors, "it is essential that a wide range of facilities are operational by the time of opening, to create the image and reputation necessary for its future popularity."

"Thorpe Park in Surrey, containing a full range of leisure facilities, many of which are water-based, involved the reclamation of old gravel workings in which the owners, RMC, already had a financial commitment."

"On the other hand, the proposed development of the Wonderworld complex at Corby requires, scale outside finance which, with a major, but as yet untried facility necessitates novel funding arrangements."

Disney achieved much of his funding through sponsorship. In the UK there has been a notable unwillingness on the part of major manufacturers to fund rides or major exhibits for anything but minor amounts unless they received a major slice of the return.

More than a decade ago a plan by Mr Eric Morley to build a Merrie England theme centre floundered partly on this problem. Disney itself had to shed much of its controls and return in order to encourage foreign participation, including British, in its Epcot project.

It originally believed that UK manufacturers would build mock palaces and rides simply for the publicity.

The Corkscrew at Alton Towers. This theme park is an example of what can be achieved by careful planning. It also demonstrates, with rides costing hundreds of thousands of pounds to build, the amount of investment that is required if a project is to be successful. Much of this money is required before opening, as it is essential that the park is able to offer a wide range of activities from the start. This allows for its reputation to be established immediately, a prerequisite of future popularity.

## Rewards for bright ideas

## Museums

ANTHONY THORNCROFT

MORE THAN 30 new museums open in the UK each year but few prove commercially profitable ventures. Most are the dreams of enthusiasts—for toys, agricultural machinery, old sailing ships, coal mines and will opt for charitable status, form trusts, and provide a precarious living for their organisers, subject to trustees who will ensure that even if they draw in many visitors they will not provide great riches.

Others will be basically tax-loss operations—the motor fanatic who supports his love of racing cars by letting the public in to see his machines, with little expectation of earning his living from such visitors.

In all, about half the 570 members of the Association of Independent Museums are running commercial operations; few are wealthy.

Although there has been a steady rise in museum visits in recent years, with the Science Museum leading the field with more than 3m visitors a year, the competition from other leisure activities, such as amusement parks and stately homes, has forced this sector to fight hard for custom.

There are almost as many museums closing as opening and in areas like railway history, where over 100 institutions compete, and the motor car, with more than 40 collections, there is limited scope for growth. The latest area to strike a popular chord is coal mining museums—there are already 15 visitors and the National Coal Board's closure policy is likely to spawn more.

You can invest in museums. Madame Tussaud's, Wootton Bassett, Warwick Castle, the "Empire and Royalty" display at Windsor are all owned by S. Pearson (which also has the FT as a subsidiary), and it reports substantial attention from commercial ventures such as the London Dungeon, which appeals to the national taste for horror, would also welcome inquiries from investors. But the real rewards come from bright new ideas.

One area with potential must be rock and roll memorabilia. The Theatre Museum subsidiary of the A & A is building a collection of these in Beatles City in Liverpool, but the British contribution to this popular culture, and the widespread interest, make a national rock and roll museum an interesting prospect.

There is also a growing appreciation of the countryside, and although many rural museums have appeared in recent years there is probably scope for more. The sea, too, continues to fascinate the British.

Investment in a museum should be considered only by a knowledgeable enthusiast who is prepared to devote all his (or her) time, and more, to making a hobby a commercial proposition.

There are currently many financial incentives—local authorities will often provide cash, or equivalent aid; tourist boards are keen for new ventures to succeed; there are tax advantages. And, of course, the collection itself is likely to appreciate in value—although there will be restrictions on selling it if you form a trust. So museums are a good living enjoying your hobby, but they very rarely provide the opportunity for making a lot of money.

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## Fast money in food

## Catering

## Franchises

DAVID CHURCHILL

FRANCHISING IS one of Britain's most dynamic retail sectors, with sales through franchised outlets expected to exceed £1bn for the first time next year and further growth anticipated for the rest of the decade.

Although franchising is now used as a means of business expansion by many companies—selling anything from computers to cars—it is in the catering sector that franchising has been most apparent. Franchised fast food outlets have been especially popular.

The fast food market, for example, is worth more than £850m and is in fact dominated by fish and chips which account for almost half of all sales. Chinese take-aways account for another fifth, while hamburger chains have about a 12 per cent market share.

The oldest established franchised fast food chain is Wimpy International, owned by United Biscuits, which has both company-owned and franchised outlets. The company has developed into one of the most successful take-away food chains even though many competitors have moved into similar high-street sites since the days when Wimpy was the only such outlet.

Kentucky Fried Chicken appears to have overcome some of its management and marketing problems of recent years to re-establish its position as the leading chain selling fried chicken.

Spud-U-Like has been one of the most interesting new developments in recent years, offering instead of the usual hamburger or chicken, a baked potato with a variety of fillings. One of the advantages claimed for Spud-U-Like is that it has a lower start-up cost (about £50,000) than that for a typical hamburger franchised outlet (starting at £200,000).

Mintel, the market research company, suggests that fast food offers "an excellent opportunity for companies to establish a presence in the market and the market seems to thrive on competition." Mintel points out that four or five different types of fast food outlet can operate in close proximity creating a form of fast food centre and drawing more business to the area.

Yet franchised fast food outlets are not necessarily a licence to print money, as a number of companies have discovered. The right site, a good flow of customers and good staff relations are crucial factors in the success of any operation of this type.

Wimpy has not been alone in the past in having to buy back franchised outlets in order to protect the whole investment.

Apart from fast food, the catering sector offers other franchising opportunities. Don Miller's Hot Bread Kitchen, for example, has both company-owned and franchised outlets offering freshly baked bread as an alternative to pre-packaged, mass-produced loaves.

Although trading in a specialist food sector—baking—which has been in decline for a number of years, the Don Miller operation has concentrated on the fresh-baked area which has experienced significant growth. However, this exposes its operation to the large grocery multiples who are rapidly developing their own in-store bakeries.

The Cookie Cosh Company supplies independent retailers with biscuits, cakes, confectionery and juices which are delivered from franchised reproduction Edwardian vans. Another cookie company is Cookie Kitchen, a franchise being developed by United Biscuits to add to its other franchised catering operations.

One new area of franchising in an established business has been developed by Unigate Dairies, a subsidiary of Unigate. At least 20% of the company's more than 6,000 individual milk delivery rounds are franchised as a means of introducing entrepreneurial spirit into the declining doorstep delivery

market. Using the franchised format provides milkmen with a natural incentive to maintain and expand the level of their business.

Franchising as a means of expansion has come a long way since the early days of the 1960s and 1970s when "cowboy" operators gave the business a bad name. Now, however, it has become a useful means for companies of securing both investment capital and motivation of key managers.

As Mr Tony Duffield, director of the British Franchise Association, comments: "There is no doubt in my mind that franchising operations will expand steadily, not least because the system is a route to self-employment for many thousands of people who would otherwise require considerably more capital with which to start their own businesses."

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Clubs such as Watford (light shirts) have proved it is possible for football to once again become a family spectator sport

## An area set for expansion

### Spectator Sports

ANTHONY THORNCROFT

WHILE ALL the thrust for the future — from the Government, the Sports Council, the media — is to turn us into a nation of sports participants rather than passive observers of other people's sporting prowess, the inevitable growth of sports activity in the next decade offers opportunities for investment in spectator sports.

For, traditionally, games which began for participants have ended by attracting crowds — tennis and golf being the most obvious examples — in recent years. The fastest-growing sports, such as basketball and volleyball, are already played before small but enthusiastic audiences. Participation sport and spectator sport cannot really be divorced.

The shrewdest investors in this area are probably looking closely at soccer. Attendances have increased in recent years; the great majority of clubs are in thrall to their bank managers; everyone predicts that within a very few years the organisation of the professional game must be revolutionised. This month Charlton Athletic

has announced that it is quitting its extensive ground in south-east London to share the facilities of Crystal Palace.

Anyone interested in a gamble would be investigating how to be a shareholder of a football club: in the shake-out there will be some very profitable property deals negotiated by clubs which own their grounds. There is also the chance that football will be able to transform its image, and become a family game again. Clubs such as Watford prove it can happen.

All in all, with their locations on prime inner-city sites, football clubs are probably the best investment in sport for someone able to take advantage of the opportunities: the clubs tend to be dominated by the sharpest of the local self-made millionaires.

It is the lesser sports which are currently taking advantage of football's difficulties. Speedway racing has gone out of its way to project a family image, and although it has yet to gain great media coverage it is enjoying a modest revival. Once again the stadium suggests a property angle.

Athletics, too, has enjoyed increased audiences this year and, as the big names become more professional, the earnings of the Grand and the Coes approaching those of

tennis players, so there is the potential for private investment to join the unlikely duo of big money sponsors and local councils (who tend to own the athletic tracks) in the development of the sport.

The Sports Council, which receives £30m a year from the Government, is becoming less suspicious of commercial investors. It has given money towards the creation of eight indoor tennis centres in the UK with the hope of developing a British Wimbledon Champion. But the centres, such as the David Lloyd/Sizenger complex at Heston, are basically commercial ventures, attracting both players and spectators.

Another sport which is consciously presenting itself to spectators is squash.

The arrival of the new court, enabling an audience to watch the action, has transformed the game and many of the sports centres springing up throughout the country now include a visitors' court. Ice skating, too, growing on the success of Norville and Dean, seeks both active participants and spectators. The Sport and Leisure Development Corporation has opened an ice bowl at Gillingham in an enterprise zone, and Mecc is another company thriving on the ice rinks boom. There is still much potential.

In France, Paris has 25 rinks; while there are just 27 in the whole of the UK.

There is still a chance that Birmingham will win its bid for the 1992 Olympics. If it does it will give a boost to sports centres throughout the Midlands. But even if the bid is unsuccessful the action seems certain to become more sports conscious. Much of it will be based on the armchair in front of the television set.

But the thinking investor can wonder why snooker, for example, has to hold its most important championship in a theatre in Sheffield rather than a purpose-built hall with spectator facilities, and why Wimbledon should scoop all the financial cream of tennis?

If we can produce better British sportsmen and women, as seems possible in the next few years, then people will want to see them in action. At the moment there is a great dearth of stadia. We will need multi-purpose complexes looking after spectators in comfort and safety. The days of derelict football clubs is obviously over: the opportunity is there to bring, at last, decent facilities for watching sport to the UK. It is an area where most other countries leave us at the starting line.

## A shake-out of the market

### Health & Fitness

DAVID CHURCHILL

HAS THE health and fitness boom of the early 1980s levelled off? Certainly, there are many who would argue that the market has reached maturity this year, with books on health, aerobic videos, records, keep-fit clothing, track shoes, and health centres all facing problems as they compete with each other.

But a more realistic view of the market is that there has simply been a shake-out of those who wanted to "get rich quick".

Caroline Patel, in a new survey of health clubs in Britain published by the Suffolk-based company, Leisure Consultants, argues that "when the fitness boom started, many people jumped on the bandwagon thinking that they could make a lot of money very quickly."

The shake-out over the past 12 months, she says, "reflects the fact that some of those who set up health clubs had no previous business experience." A number of health clubs closed after their first year because the people who set them up perceived the health club business as a glamorous one rather than as a practical proposition.

The key difference in the market since the turn of the decade, therefore, is that the consumer has become more sophisticated about health and fitness. The desire to lead a more healthy and satisfying life is still there, but the experience of the "cowboy" operators has forced consumers to become more discriminating.

Consumers, as in so many markets, are looking for quality and not quantity from their exercise. New technology, moreover, will play an increasingly important role in the form of resistance fitness machines such as those marketed by Nautilus.

But the business of health and fitness is not limited to the mass-market appeal of health and dance clubs. Traditional health farms have been given a new lease of life in the

1980s by the modern professional men and women concerned with personal fitness who want to lose weight in more civilised surroundings than a health club.

Moreover, large companies are moving into the market, typified by Guinness the brewers decision late last year to acquire the Champneys group of health farms. Guinness has identified health and fitness as a growth industry through and beyond the 1990s and clearly intends to move further into this sector.

Other major companies involved in health farms include The Savoy, with Forest Mere in Hampshire, and fur trader GR (Holdings) with Grayshott Hall near Hindhead, Surrey.

Market research shows that women still outnumber men by two to one at health farms and that they are younger (25 to 35) and more career-minded than a decade or so ago.

At a more active level, participation in sports has been growing for the past decade. League football, for example, has lost nearly 7m spectators during this time while in the same period the number of amateur football clubs has risen by more than 2,000, with nearly 300 of these women's football clubs.

Mintel, the market research company, says that "sports participation in general has not realised its full potential, with about half the population at present not taking part in any activity."

However, Mintel warns that this does not necessarily mean a boom in sports participation since much of the extra leisure time now available is used for leisure within the home rather than active sports.

When active sport is undertaken, swimming is the most popular according to a Mintel survey followed by the games of snooker and darts. Individual sports, or those played with one or two others, are more popular than team sports.

The health and fitness leisure markets, therefore, may not be the easy pickings for investors that existed only a few years ago. But there is little doubt that the market will continue to grow, though at a steadier pace than before, and with individual sectors growing at the expense of others.

## Scope for the entrepreneur

### Small Businesses

RICHARD TOMPKINS

AT FIRST sight the leisure industry might be thought to offer little scope for individuals wanting to break out on their own. Who, after all, is in a position to raise the capital to set up a sports stadium, cinema complex or theme park?

The thousands of privately-owned wine bars, restaurants and hotels up and down the country, however, bear witness to the large number of entrepreneurs active in the sector.

Nor are the opportunities limited to these commonplace examples. Many more people yearning to escape from a drudgery of a nine-to-five routine have profited from spotting undiscovered ideas in the leisure industry and exploiting them.

Mr Colin Mursion Small tells a typical tale. He used to be an executive officer in the Civil Service working at Post Office headquarters, but his heart was not in his job. He had the travel bug.

When Mr Small decided he

was going to become a tour operator in 1958 he was not the first entrepreneur in the travel industry—Thomas Cook beat him to that by 117 years—but he did have an original idea. Previous experience of putting together holidays for groups of friends led him to invent the chalet party holiday, when a dozen or so independent holidaymakers are thrown together into one staffed chalet for a one- or two-week skiing holiday.

Mr Small set up the business—then called Mursion Small but now Small World—with a personal loan of £200 and a notice in the personal column of The Times advertising "chalet parties for intelligent young people." At the end of his first season he had taken 60 people to Grindelwald, Switzerland. He was also £50 out of pocket.

It might as well have been £500,000, Mr Small says. "I couldn't afford to give up, so I promptly invented the villa party holiday, which is the same thing as a chalet holiday but hotter. That summer he took 120 people to Blanes on the Spanish Costa Brava.

Today Small World has diversified somewhat and has grown to the point where it takes more than 4,000 people abroad each year. But it has not all been smooth sailing, and many of the problems

encountered by Mr Small in expanding his business are common to other entrepreneurs in the leisure industry.

The most often cited is financial inexperience. Those setting up on their own frequently have excellent ideas but lack the financial expertise to put them into practice. Nervous local banks are reluctant to extend them credit and many an imaginative enterprise has been strangled at birth by a shortage of cash, financial incompetence, or a combination of the two.

Mr Small readily acknowledges that his business sailed close to the financial wind in its early days. He eventually tackled the problem by going into partnership with a financier, Mr Ernest Hazebrook.

A corollary to financial inexperience is undercapitalisation. Many entrepreneurs start off with unrealistic notions of their profitability because they are working from home with minimal overheads and no wage costs. The moment they expand into offices and take on staff, they plunge into loss.

Then there is marketing. "People believe that if you have the right product, the customers will beat a path to your door," Mr Small says. "It's rubbish: marketing is the biggest problem of the lot." The success or failure of a leisure enterprise will often turn on the cost-effectiveness of its advertising.

Mr Paul Howcroft of Rohan, Designs, the leisure clothing company, is another escapee from the nine-to-five routine.

Mr Howcroft was an analytical chemist when he and his wife Sarah decided to set up their own business in 1975. They started looking for niches in the fast-growing leisure sector, and the one they spotted was for high-tech, ultra-lightweight mountaineering clothing.

After a slow but successful start they decided in 1981 to extend the application of their clothing systems to wider use, and Rohan has since acquired something of a cult following among travellers of all kinds.

Customers are compelled to beat a path to Rohan's door because its clothes are almost unobtainable in the shops. Mr Howcroft says retailers laughed in his face when he introduced them to the Rohan clothing concept, and now most sales are by mail order response to advertisements in the Sunday colour supplements.

This does have one advantage. "One of the worst things you can do in this business is to

create a demand and then find yourself unable to fulfil it. With mail order the marketing is entirely in your own hands and it is much easier to match demand and supply."

Mr Howcroft says that his wife's business acumen (she came from a family of entrepreneurs) has saved Rohan from many of the problems associated with financial inexperience. Nevertheless, the business in the past has had difficulties in obtaining capital, and Mr Howcroft's opinion of local banks verges on the unprintable.

However, the company has now won financial backing from the Bank of Scotland and has just moved from its Long Preston, Yorkshire, base to bigger premises in Milton Keynes.

Mr Howcroft says the key to success in the leisure industry is not seeing someone else making money and copying their idea, but to identify a need which is not being fulfilled.

"At the end of the day, the money's no great shakes. What it is all about is the enthusiasm to achieve something. In our case it's nothing less than to change people's perception of clothing," he says. "It's much better than anything else you can buy."

A third example of the entrepreneur in action is Stancombe Leisure Centre in Sherford, Devon.

Mr John Levy, his wife Judy and their partner Mr Richard Foyle were architectural consultants and builders in north-west London when they decided to opt out of the rat race. "We were tired of designing horrible little concrete blocks for local authorities. We decided we wanted to re-create something historical," Mr Levy says.

After a long search they discovered the near-derelict parish-barn Stancombe Farm in 1981 and set about restoring it while converting the interior into a self-catering residential leisure centre with extensive sports facilities. In their case financial backing was forthcoming from the bank they had done business with for the previous 25 years, and they also won a £30,000 grant from the English Tourist Board.

The business is still in its infancy, but has had a successful first season and none of the partners regrets going into the venture. Like many another entrepreneur, Mr Levy never went into the leisure industry with the idea of making a lot of money or having an easy time.

Perhaps he best sums it up with his verdict: "I have never been so broke, so tired or so happy in my life."

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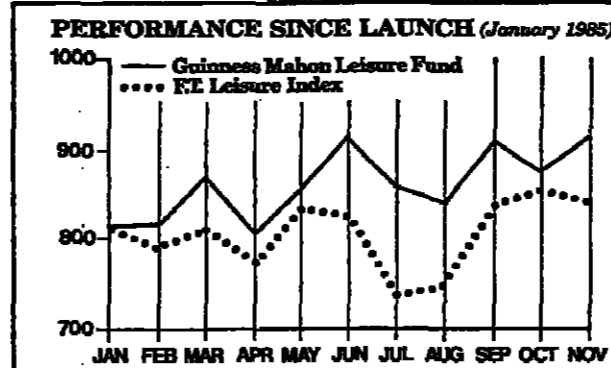
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## The Leisure Industry 4

## Funds for right projects

## Development of the industry

ARTHUR SANDLES

"TOURISM and leisure offer potential growth, and should increase their contribution to the economy and employment as a whole, providing a positive and co-operative attitude is adopted by all those concerned with the development of the industry. Success will be achieved if there is a willingness to develop and invest in the market opportunities of the future."

These brave words concluded an English Tourist Board statement of intent published a couple of years ago as part of a bid to show that tourism and leisure were serious businesses, worthy of attention. To a large extent that battle has been won, to some degree almost over won. There seems little problem in convincing investors that leisure as a whole is an interesting field, "there is," as one consultant put it, "an abundance of money around," but on the other hand those seeking funds often experience considerable difficulty in getting their hands on this cash.

At the top end of the market, of course, one assumes that the searchers can look after themselves. Pure leisure companies, such as Lord Defont's First Leisure, which has been making a spectacular success updating such ageing assets as the nation's piers and showing its paces with innovation in operations ranging from discotheques to snooker halls, have become something of a glamour stock. Companies with a high leisure profile, like Ladbroke and Rank, are similarly enthusiastically followed.

For lesser mortals raising the wind for a leisure facility can be an uphill task. Traditional sources of finance appear to have difficulty in assessing leisure schemes, particularly those which are innovative and which have no names with established track records attached to them.

A great many tourist projects, from small hotels to museums, fun fairs to health centres, may also fall into that terrible gap that sits between the local bank and the City—too big for one, and too small for the other.

Step one for almost anyone finance should be the nearest National or Regional Tourist Board. These boards are not only major sources of information on

tourism investment but can also supply cash themselves, usually in the form of Section Four grants. The boards are able to give grants of between 20 and 30 per cent towards the cost of a tourism project, and this is normally provided in the form of stage payments.

To get the money the Boards normally conduct an extremely thorough investigation not only of the viability of the project but also of the ability of the promoters to carry it through. The passing of this stage, which forces many a potential entrepreneur to sit down for the first time and do realistic projections, is a useful discipline in itself.

The availability of public funds does not end there. The Council for Small Industries in Rural Areas (COSIRA), the British Waterways Board, the Arts Council, the Civic Trust and the Countryside Commission are all potential sources of support and certainly advice in their respective fields.

Normally, however, even the most enthusiastic collector of grants will be unable to get more than 50 per cent of the funding from public sources, no matter how many of them are tapped.

Local authorities themselves have various other avenues of attack including, as several UK resorts have recently proved, the EEC. But back to the private individual or company.

For them a normal form of approach would be the local clearing bank. Most banks have schemes for the entrepreneur and it is well worth shopping around if you have a good scheme. A bank may well have an "off the shelf" scheme for projects needing anything from £10,000 to £2m.

Often these will involve fixed term, fixed interest, loans with some sort of repayment or interest holiday for the first couple of years. Usually some form of collateral is required for each loan and sometimes directors' personal guarantees of repayment will be sought.

Some of the banks operate venture capital and equity involvement schemes. In these instances the promoter should expect to lose some of his equity stake in the business. In exchange for this, however, he will broaden his borrowing powers and almost certainly be offered, or indeed have pressed upon him, expertise at board level which can be of considerable help.

Some new companies, often allied to banks, have sprung up recently with the object of putting money and entrepreneurs together.

Aspect Leisure is one of the major operators in this field (it is the company which has been closing leisure and timeshare operations in the Lake District). Langdale's role in life is to form a link between the men of ideas and the men of money—the word "men" is used in a unisex sense, of course.

It has recently been working with the Lazard's subsidiary, Development Capital Group, to set up the Lazard Leisure Fund, for example, which is looking for investments of £250,000 upwards.

Leisure Development is a company set up nearly two years ago with the English Tourist Board acting as a catalyst. It brought together five City institutions and a group of executives with extensive leisure investment experience. Leisure Development was set up with the specific objective of a "significant capital gain for its shareholders on the ultimate disposal." It is an institution which seeks to become closely involved with any project into which it injects funds.

All in all the sources of finance for leisure are considerable. Searchers after such finance must, however, be prepared for doubtful reception at first. Bank managers are all too tired of hearing the fantasy schemes of tired executives simply selling an idea from the rat race. Prove that you are not such and you might get a more cheerful welcome.



UK timeshare development at Langdale in the Lake District.

## Continued growth is forecast

## Timesharing

MOSS MURRAY

THE NUMBER of British timeshare owners is expected to increase from 30,000 to 40,000 during 1985, a growth of 33 per cent, according to a Mintel report in June. Some 4,000 of these new owners will buy their timeshare homes in the UK.

The report adds: "Timesharing abroad is viewed with the same potential legal and financial pitfalls associated with owning property overseas. The unpredictable travel cost is also a deterrent to long-term holiday commitment abroad. Growth in timeshare owners is predicted to continue steadily for the next two years at about 30 per cent per year."

This is the background which helped convince Ronald Haylock, European head of the giant Resort Condominiums International, largest timeshare exchange organisation, that there will be continued expansion in the number of foreign timeshare developments in Britain.

They will meet the demands both of UK citizens who want their holiday home in the country they know best, and the increasing number of foreign timeshare owners wishing to exchange their own time-owner homes for a stay in Britain.

It says something for the professionalism of the two giant exchange organisations, RCI and Interval International, which together have been largely responsible for the growth and acceptance of the timeshare concept, that despite economic recession and the industry's infancy, there have been comparatively few failures in the UK.

Where they have occurred the reasons have usually been either lack of finance rather than inefficiency, or a failure to appear in a location with high costs of timeshare marketing compared with almost any other commercial activity.

In Swanson, a director of Aspect Leisure, says: "It is essential for every UK timeshare project to be in a location that is a natural holiday area. In this country the demand for timeshare holiday homes is primarily from professional businessmen and women. They are discriminating consumers and all the success-

ful developments have offered not only luxurious accommodation designed with style, but a comprehensive package of leisure facilities including swimming pools, saunas, jacuzzis, gyms, squash courts, health and beauty salons as well as golf, riding and restaurants."

The average cost of a week's timesharing per year for the next 30 years in England, or in perpetuity in Scotland, is about £5,000. If, says Ian Swanson, the developer can get his marketing, selling and construction mix right the rewards can be high. But if a single link in the chain is weak the results can be disastrous.

Ron Haylock of RCI insists that every newcomer and developer has to budget for one-third of his capital being used for building, another third for marketing, including sales, advertising, promotions and publicity, and the final third to secure the financing.

He says: "A timeshare project cannot be budgeted as a shoe-string. Many people reading of the industry's phenomenal growth worldwide decide they want to get in on the act. We receive a steady stream of visitors, most of them would-be developers wishing to join RCI and receive the benefit of our advice and experience."

"We have to tell more than 70 per cent to go away and forget about becoming involved in timesharing."

People like Ron Haylock and Paula Wood, assistant vice-president in Europe of Interval International, says that a timeshare development, whether in the UK or elsewhere, needs a minimum of ten units, and preferably quite a few more, to make the most of the building, and to cater for a wide range of business, even with ten units it may have to notch up 500 sales before becoming a sell-out, in 50 weeks for each apartment, villa or cottage. This is the fact that sends marketing costs soaring.

Resort The exchange organisations lay down stringent rules before allowing any development to become affiliated. Each of the exchange organisations checks that developers have a legal title to the land or buildings being sold. Their lawyers give guidance on the preparation of all agreements between the developer and the purchaser; they are careful to ensure that any mortgage does not have prior rights which might jeopardise the interests of individual owners.

## Need to keep abreast of quickly changing trends

## Leisure Companies

MARTIN DICKSON

TEN-PIN bowling has been enjoying a revival—some 20 years after it first swept Britain and then seemed to go the way of all ephemeral crazes.

Interest has been increasing for some years, and still seems to be growing. "We're well ahead of last year," says Lord Defont, chairman of entertainment group First Leisure, which has extensively refurbished its five centres to provide what Lord Defont describes as a "good family atmosphere."

An ability to keep closely in touch with the fickle whims of public taste ranks high on the list of qualifications for building up a successful company in the leisure sector. And it is an ability which in the early days of a new venture can be founded as much on instinct as expensive market research.

However, the skills needed to spot market winners may well not be complemented by three other ingredients vital for success: strong management, tight financial controls and an ability to manage oneself.

Alongside these giants of the sector, in the hotel and gaming businesses, is a pot-pourri of smaller fry, which analysts generally classify under the heading "miscellaneous leisure". This pot-pourri also includes the holiday industry.

Many of these companies lack the spread of interests which gives the leaders a degree of stability, but equally they provide some of the more interesting, and more offset, investment opportunities, particularly when they have been able to carve out strong market niches for themselves.

One of the more remarkable success stories of the sector over the past 10 years has been the rise of Intasun, the package holiday company headed by Mr Harry Goodman. It was founded above a small office above a London travel agent in 1971. Its first major breakthrough came four years later when it

discovered and squashed health clubs. It now regards these operations as fairly mature and peripheral to its main activities.

This is a similar path to that followed by Trusthouse Forte, which sold its leisure interests in 1983 to the newly-formed and institutionally-backed First Leisure, headed by Lord Defont.

First Leisure, interests of which include the Blackpool Tower complex, Chichester Yacht Marina, piers and discotheques, went public in 1984 in an offer for sale that was hugely oversubscribed.

Grand Metropolitan, however, says it wants to hold on to its Mecca bookmaking and casino interests, which comprise one of the leading players in the UK gaming industry.

Other major operators include Plesurama, which at the start of this year made a £119m agreed takeover of Trident Television, giving it four London Casinos to add to its 17-strong provincial chain. In bookmaking, the market leader is Ladbroke, with an estimated 20 per cent of the business, but which has diversified to be a substantial force in the hotels business and, particularly in recent years, in property development.

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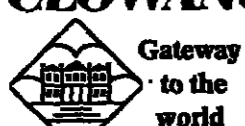
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## Optimism at the box office

## Cinemas

RAYMOND SNOODY

To make things worse many cinemas were not just old and down at heel, but had been left stranded in city centre areas by the population shifts to the suburbs.

Annual admissions, which were more than 1.2bn in 1963, had by last year fallen to 53m. Yet quite suddenly cinemas in the UK have become something that sensible companies might consider investing in rather than something to close, knock down or turn into furniture warehouses.

For the first time in many years the major cinema chains are showing signs that they realise that substantial new investment is necessary to re-furbish old cinemas and build new ones if the long-term slide in cinema audiences is to be arrested. And new groups are testing the market.

In Milton Keynes, for instance, a purpose built 10 screen cinema has been built as part of a £7.5m leisure complex. The project is a joint venture between Bass Leisure, part of the brewery group, and American Multi-Cinema the third largest cinema chain in the U.S. If the project is successful it could provide the model for similar developments elsewhere in the UK.

In July Thorn EMI announced it was going to spend £3.5m on an eight screen cinema complex in Salford, near Manchester, the first completely new cinema Britain's largest cinema chain operator has built for 40 years.

Thorn EMI's Entertainment division had planned to announce a number of new multiplex cinemas before the end of this year. Future investment plans, however, have been delayed by uncertainty over the future of the division. Thorn EMI has indicated that it is considering selling the division and a management buyout is one possibility.

Earlier this year the Rank Organisation opened a new three-screen Odeon cinema in Bristol as part of a £4m devel-

opment, and the company has plans for a series of new cinemas in joint deals with developers.

Cinema investment in the UK also got a boost in September when Cannon Group bought the Star Group of cinemas for £4.4m. This will give Cannon 94 cinemas with 220 screens—making it the second largest chain in the country.

At the time Mr Barry Jenkins, Cannon's UK managing director said the purchase was a major step forward in a policy of development and refurbishment of cinemas in Britain. "It underlines our continuing faith in the industry."

The increased interest in investment has come at the same time as greater optimism at the box office. A stream of popular films has pushed attendances up by about 50 per cent and the activities of British Film Year has generated extensive publicity for the British cinema and exhibition industry.

At the other end of the scale a few brave individuals have been investing in independent cinemas, partly for love and partly for business.

The cinema at Woodbridge in Suffolk, for instance, was destined to close until Mr Pat Betts a local businessman bought it. The 1915 cinema was reopened in May after a £200,000 refurbishment and the addition of a brasserie. Mr Betts says he is confident he can make a commercial go of it although it will need a lot of attention.

Mr Brian Saunders, president of the Association of Independent Cinemas, however, warns anyone without experience of the cinema industry against taking over an independent cinema without careful thought.

Out at the front of the house, he says the silver screen may look glamorous. The view in the back office on a Monday morning trying to get popular films before the big circuits have milked them dry is another matter entirely, he cautions.

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**FT UNIT TRUST INFORMATION SERVICE**

## Arctic expert recruited by Finnish shipbuilders

**BY OLLI V. VERTANEN IN HELSINKI**

**W**ARTSILA, Finland's leading shipbuilding company, has appointed Professor Paull Jumpsanen of the Technical Research Centre of Finland as a director responsible for research and development of Wartsila's Arctic and offshore technology. He will head the group president, Dr. Tor Støpe.

Professor Jumpsanen is Finland's leading expert in Arctic technology. He will now also leave his position as chairman of the Finnish-Soviet Arctic Technology Commission. But the change of job does not affect his chairmanship of the international Polarcraft Conference to be held in Finland next year.

## First Japanese adviser for Merrill Lynch

**Mr. Saburo Okita**, former Japanese external economic relations representative, has become a member of MERRILL LYNCH AND CO's Advisory Council. He is the first Japanese to join the Council. The Advisory Council of the world's largest securities firm now includes leading British, French and Canadian economic experts who give their

## MOVES IN BRIEF

**AMERICAN EXPRESS BANK (AEB)**, the wholly-owned international banking arm of American Express Co., has made Mr. **Adrian C. R. Verwey**, executive vice-president, its area head for Latin America. Mr. Verwey previously headed AEB's worldwide global credit operations. He succeeds Mr. Alberto Lazzaraga and will continue to be based in New York. Mr. L. Alan Bawden, senior vice president, has assumed responsibility for AEB's global credit department.

## UK APPOINTMENTS

**MASSTOR SYSTEMS CORPORATION** has named Mr. David Addison as its chairman. This follows the resignation of Mr. Erik O. J. Salbu, a founder and chairman of the company since its inception. Mr. Addison has been president and a director of

★  
Mr Robert B. Holmes has been elected president and chief operating officer of GREAT WESTERN FINANCIAL COR.

**FINANCIAL TIMES**  
is proposing to publish a Survey on  
**DEFENCE INDUSTRIES**

Mr Laurence Silman has been appointed executive chairman of ANGLO LEASING. He succeeds Mr Michael Broke, who is relinquishing the chairmanship due to commitments at Stockley, where he is chief executive. Mr Broke remains on the Anglo Leasing board. Mr Kenneth Szekrka, sales director, succeeds Mr Silman as managing director of Anglo Leasing and Mr Howard Stanton, a director, becomes non-executive deputy chairman. Mr Stanton is finance director of Anglo Leasing. The Anglo Leasing Roschild Holding, of which Anglo Leasing is a wholly-owned subsidiary.

★  
GEORGE JOHNSON & CO. (BIRMINGHAM), a Cookson group company, has appointed Mr M. J. R. Padmore as managing director.

JOHN MOWLEM & CO. has appointed Mr David Glyn-Weeds to the board of Mowlem (Civil Engineering), and Mr Robin Rodwell to the board of Mowlem Northern.

**GROSVENOR DEVELOPMENTS & CONSERVATION ESTATE**

De Broekert, and Mr P. G. Martin, as joint deputy managing directors. Mr M. Aldred becomes executive director.

Rank Xerox UK, has been appointed a non-executive director of CAMPBELL'S UK

★  
Mr Keith Hall has been appointed sales director of WR ELEC-RODES, a subsidiary of Welding Rods. He was sales manager. He succeeds Mr Ken Mortimer who is retiring. Two other board

appointments are Mr Alec Horsfield as technical director, and Mr Kenneth Capon as production

Following the acquisition of LOWBOTHAM TANKSHIPS by Marine Transport Lines Inc, Mr

chairman and Mr Gerald Leaver, managing director. Mr Thomas

Mr Robert James Davidson has been appointed to the board of the NATIONAL NUCLEAR

ment follows the retirement of Mr Alan Veale. Mr Davidson has

been managing director of GEC  
turbine Generators since 1974.

↓

Mr David Brown has been  
appointed a director of TRAFAL-  
GAR HOUSE GROUP PREMISES.

★

Director of HILL SAMUEL UNIT TRUST MANAGERS, will retire

December 31. She will be

[illegible]

**CONTINUED OVERLEAF**

## INSURANCES

[illegible]

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<b>Androsian Gen Mgmt Ltd</b> 480, 482, 484, 486, 488, 490, 492, 494, 496, 498, 500, 502, 504, 506, 508, 510, 512, 514, 516, 518, 520, 522, 524, 526, 528, 530, 532, 534, 536, 538, 540, 542, 544, 546, 548, 550, 552, 554, 556, 558, 560, 562, 564, 566, 568, 570, 572, 574, 576, 578, 580, 582, 584, 586, 588, 590, 592, 594, 596, 598, 600, 602, 604, 606, 608, 610, 612, 614, 616, 618, 620, 622, 624, 626, 628, 630, 632, 634, 636, 638, 640, 642, 644, 646, 648, 650, 652, 654, 656, 658, 660, 662, 664, 666, 668, 670, 672, 674, 676, 678, 680, 682, 684, 686, 688, 690, 692, 694, 696, 698, 700, 702, 704, 706, 708, 710, 712, 714, 716, 718, 720, 722, 724, 726, 728, 730, 732, 734, 736, 738, 740, 742, 744, 746, 748, 750, 752, 754, 756, 758, 760, 762, 764, 766, 768, 770, 772, 774, 776, 778, 780, 782, 784, 786, 788, 790, 792, 794, 796, 798, 800, 802, 804, 806, 808, 810, 812, 814, 816, 818, 820, 822, 824, 826, 828, 830, 832, 834, 836, 838, 840, 842, 844, 846, 848, 850, 852, 854, 856, 858, 860, 862, 864, 866, 868, 870, 872, 874, 876, 878, 880, 882, 884, 886, 888, 890, 892, 894, 896, 898, 900, 902, 904, 906, 908, 910, 912, 914, 916, 918, 920, 922, 924, 926, 928, 930, 932, 934, 936, 938, 940, 942, 944, 946, 948, 950, 952, 954, 956, 958, 960, 962, 964, 966, 968, 970, 972, 974, 976, 978, 980, 982, 984, 986, 988, 990, 992, 994, 996, 998, 1000, 1002, 1004, 1006, 1008, 1010, 1012, 1014, 1016, 1018, 1020, 1022, 1024, 1026, 1028, 1030, 1032, 1034, 1036, 1038, 1040, 1042, 1044, 1046, 1048, 1050, 1052, 1054, 1056, 1058, 1060, 1062, 1064, 1066, 1068, 1070, 1072, 1074, 1076, 1078, 1080, 1082, 1084, 1086, 1088, 1090, 1092, 1094, 1096, 1098, 1100, 1102, 1104, 1106, 1108, 1110, 1112, 1114, 1116, 1118, 1120, 1122, 1124, 1126, 1128, 1130, 1132, 1134, 1136, 1138, 1140, 1142, 1144, 1146, 1148, 1150, 1152, 1154, 1156, 1158, 1160, 1162, 1164, 1166, 1168, 1170, 1172, 1174, 1176, 1178, 1180, 1182, 1184, 1186, 1188, 1190, 1192, 1194, 1196, 1198, 1200, 1202, 1204, 1206, 1208, 1210, 1212, 1214, 1216, 1218, 1220, 1222, 1224, 1226, 1228, 1230, 1232, 1234, 1236, 1238, 1240, 1242, 1244, 1246, 1248, 1250, 1252, 1254, 1256, 1258, 1260, 1262, 1264, 1266, 1268, 1270, 1272, 1274, 1276, 1278, 1280, 1282, 1284, 1286, 1288, 1290, 1292, 1294, 1296, 1298, 1300, 1302, 1304, 1306, 1308, 1310, 1312, 1314, 1316, 1318, 1320, 1322, 1324, 1326, 1328, 1330, 1332, 1334, 1336, 1338, 1340, 1342, 1344, 1346, 1348, 1350, 1352, 1354, 1356, 1358, 1360, 1362, 1364, 1366, 1368, 1370, 1372, 1374, 1376, 1378, 1380, 1382, 1384, 1386, 1388, 1390, 1392, 1394, 1396, 1398, 1400, 1402, 1404, 1406, 1408, 1410, 1412, 1414, 1416, 1418, 1420, 1422, 1424, 1426, 1428, 1430, 1432, 1434, 1436, 1438, 1440, 1442, 1444, 1446, 1448, 1450, 1452, 1454, 1456, 1458, 1460, 1462, 1464, 1466, 1468, 1470, 1472, 1474, 1476, 1478, 1480, 1482, 1484, 1486, 1488, 1490, 1492, 1494, 1496, 1498, 1500, 1502, 1504, 1506, 1508, 1510, 1512, 1514, 1516, 1518, 1520, 1522, 1524, 1526, 1528, 1530, 1532, 1534, 1536, 1538, 1540, 1542, 1544, 1546, 1548, 1550, 1552, 1554, 1556, 1558, 1560, 1562, 1564, 1566, 1568, 1570, 1572, 1574, 1576, 1578, 1580, 1582, 1584, 1586, 1588, 1590, 1592, 1594, 1596, 1598, 1600, 1602, 1604, 1606, 1608, 1610, 1612, 1614, 1616, 1618, 1620, 1622, 1624, 1626, 1628, 1630, 1632, 1634, 1636, 1638, 1640, 1642, 1644, 1646, 1648, 1650, 1652, 1654, 1656, 1658, 1660, 1662, 1664, 1666, 1668, 1670, 1672, 1674, 1676, 1678, 1680, 1682, 1684, 1686, 1688, 1690, 1692, 1694, 1696, 1698, 1700, 1702, 1704, 1706, 1708, 1710, 1712, 1714, 1716, 1718, 1720, 1722, 1724, 1726, 1728, 1730, 1732, 1734, 1736, 1738, 1740, 1742, 1744, 1746, 1748, 1750, 1752, 1754, 1756, 1758, 1760, 1762, 1764, 1766, 1768, 1770, 1772, 1774, 1776, 1778, 1780, 1782, 1784, 1786, 1788, 1790, 1792, 1794, 1796, 1798, 1800, 1802, 1804, 1806, 1808, 1810, 1812, 1814, 1816, 1818, 1820, 1822, 1824, 1826, 1828, 1830, 1832, 1834, 1836, 1838, 1840, 1842, 1844, 1846, 1848, 1850, 1852, 1854, 1856, 1858, 1860, 1862, 1864, 1866, 1868, 1870, 1872, 1874, 1876, 1878, 1880, 1882, 1884, 1886, 1888, 1890, 1892, 1894, 1896, 1898, 1900,
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<b>Global Trust International Pl. Hong Kong</b> <b>PO Box 294, St. Helier, Jersey</b> <b>0354 724441</b> <b>0354 724442</b> <b>0354 724443</b> <b>0354 724444</b> <b>0354 724445</b> <b>0354 724446</b> <b>0354 724447</b> <b>0354 724448</b> <b>0354 724449</b> <b>0354 724450</b> <b>0354 724451</b> <b>0354 724452</b> <b>0354 724453</b> <b>0354 724454</b> <b>0354 724455</b> <b>0354 724456</b> <b>0354 724457</b> <b>0354 724458</b> <b>0354 724459</b> <b>0354 724460</b> <b>0354 724461</b> <b>0354 724462</b> <b>0354 724463</b> <b>0354 724464</b> <b>0354 724465</b> <b>0354 724466</b> <b>0354 724467</b> <b>0354 724468</b> <b>0354 724469</b> <b>0354 724470</b> <b>0354 724471</b> <b>0354 724472</b> <b>0354 724473</b> <b>0354 724474</b> <b>0354 724475</b> <b>0354 724476</b> <b>0354 724477</b> <b>0354 724478</b> <b>0354 724479</b> <b>0354 724480</b> <b>0354 724481</b> <b>0354 724482</b> <b>0354 724483</b> <b>0354 724484</b> <b>0354 724485</b> <b>0354 724486</b> <b>0354 724487</b> <b>0354 724488</b> <b>0354 724489</b> <b>0354 724490</b> <b>0354 724491</b> <b>0354 724492</b> <b>0354 724493</b> <b>0354 724494</b> <b>0354 724495</b> <b>0354 724496</b> <b>0354 724497</b> <b>0354 724498</b> <b>0354 724499</b> <b>0354 724500</b> <b>0354 724501</b> <b>0354 724502</b> <b>0354 724503</b> <b>0354 724504</b> <b>0354 724505</b> <b>0354 724506</b> <b>0354 724507</b> <b>0354 724508</b> <b>0354 724509</b> <b>0354 724510</b> <b>0354 724511</b> <b>0354 724512</b> <b>0354 724513</b> <b>0354 724514</b> <b>0354 724515</b> <b>0354 724516</b> <b>0354 724517</b> <b>0354 724518</b> <b>0354 724519</b> <b>0354 724520</b> <b>0354 724521</b> <b>0354 724522</b> <b>0354 724523</b> <b>0354 724524</b> <b>0354 724525</b> <b>0354 724526</b> <b>0354 724527</b> <b>0354 724528</b> <b>0354 724529</b> <b>0354 724530</b> <b>0354 724531</b> <b>0354 724532</b> <b>0354 724533</b> <b>0354 724534</b> <b>0354 724535</b> <b>0354 724536</b> <b>0354 724537</b> <b>0354 724538</b> <b>0354 724539</b> <b>0354 724540</b> <b>0354 724541</b> <b>0354 724542</b> <b>0354 724543</b> <b>0354 724544</b> <b>0354 724545</b> <b>0354 724546</b> <b>0354 724547</b> <b>0354 724548</b> <b>0354 724549</b> <b>0354 724550</b> <b>0354 724551</b> <b>0354 724552</b> <b>0354 724553</b> <b>0354 724554</b> <b>0354 724555</b> <b>0354 724556</b> <b>0354 724557</b> <b>0354 724558</b> <b>0354 724559</b> <b>0354 724560</b> <b>0354 724561</b> <b>0354 724562</b> <b>0354 724563</b> <b>0354 724564</b> <b>0354 724565</b> <b>0354 724566</b> <b>0354 724567</b> <b>0354 724568</b> <b>0354 724569</b> <b>0354 724570</b> <b>0354 724571</b> <b>0354 724572</b> <b>0354 724573</b> <b>0354 724574</b> <b>0354 724575</b> <b>0354 724576</b> <b>0354 724577</b> <b>0354 724578</b> <b>0354 724579</b> <b>0354 724580</b> <b>0354 724581</b> <b>0354 724582</b> <b>0354 724583</b> <b>0354 724584</b> <b>0354 724585</b> <b>0354 724586</b> <b>0354 724587</b> <b>0354 724588</b> <b>0354 724589</b> <b>0354 724590</b> <b>0354 724591</b> <b>0354 724592</b> <b>0354 724593</b> <b>0354 724594</b> <b>0354 724595</b> <b>0354 724596</b> <b>0354 724597</b> <b>0354 724598</b> <b>0354 724599</b> <b>0354 724600</b> <b>0354 724601</b> <b>0354 724602</b> <b>0354 724603</b> <b>0354 724604</b> <b>0354 724605</b> <b>0354 724606</b> <b>0354 724607</b> <b>0354 724608</b> <b>0354 724609</b> <b>0354 724610</b> <b>0354 724611</b> <b>0354 724612</b> <b>0354 724613</b> <b>0354 724614</b> <b>0354 724615</b> <b>0354 724616</b> <b>0354 724617</b> <b>0354 724618</b> <b>0354 724619</b> <b>0354 724620</b> <b>0354 724621</b> <b>0354 724622</b> <b>0354 724623</b> <b>0354 724624</b> <b>0354 724625</b> <b>0354 724626</b> <b>0354 724627</b> <b>0354 724628</b> <b>0354 724629</b> <b>0354 724630</b> <b>0354 724631</b> <b>0354 724632</b> <b>0354 724633</b> <b>0354 724634</b> <b>0354 724635</b> <b>0354 724636</b> <b>0354 724637</b> <b>0354 724638</b> <b>0354 724639</b> <b>0354 724640</b> <b>0354 724641</b> <b>0354 724642</b> <b>0354 724643</b> <b>0354 724644</b> <b>0354 724645</b> <b>0354 724646</b> <b>0354 724647</b> <b>0354 724648</b> <b>0354 724649</b> <b>0354 724650</b> <b>0354 724651</b> <b>0354</b>
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## Indices

## DOW JONES

Friday	Change			Friday	Change		
	Stocks traded	Closing on price day	Change		Stocks traded	Closing on price day	Change
Tex. Oil & Gas 4,741,500	19	- 1/4		ATT 1,871,300	20	- 1/4	
P. Svc. N.m. 2,868,700	28	+ 1/4		Westingh. Elec 1,415,100	42	+ 1/4	
U.S. Steel 2,828,700	28	- 1/4		Gen. Electric 1,342,100	67	+ 1/4	
East Air 2,158,700	73	- 1/4		Gen. Motors 1,197,300	64	- 1/4	
Phillips Pet 1,881,500	18	- 1/4		Southern 1,037,300	20	- 1/4	

## OVER-THE-COUNTER

\* Saturday October 19: Japan Nikkei-Dow 13,015.7. TSE 1,034.06.

## TORONTO

[illegible]**GERMAN**

## AUSTRALIA

[illegible]

**HONG KONG**

[illegible]

## 1985

Rank		Price	
8	1.95	825	580 Yamachi Sec.
9	6.65	827	610 Yamachi
70.35	26.0	789	851 Trausa Fire
696	155		
12.7	3.65		
3	6.0		
1.3	3.9		
2.3	3.1		
56	40.25		
52.6	22.75		
5.89	3.5		
15.66	11.3		
4	20		
24.35	14.78		
16.05	11.75		
9.0	5.8		
7.45	5.4		
6.2	1.15		

## OVER-THE-COUNTER

**Nasdaq national market, closing prices, October 25**

[illegible]

1,150  
530

[illegible]

## 4.595

[illegible]

## 1985

[illegible]

## 1985

Rank		Price	
8	1.95	825	580 Yamachi Sec.
9	6.65	827	610 Yamachi
70.35	26.0	789	851 Trausa Fire
696	155		
12.7	3.65		
3	6.0		
1.3	3.9		
2.3	3.1		
56	40.25		
52.6	22.75		
5.89	3.5		
15.66	11.3		
4	20		
24.35	14.78		
16.05	11.75		
9.0	5.8		
7.45	5.4		
6.2	1.15		



**Closing prices**  
**October 25**

[illegible][illegible]

**BELGIUM**  
**LUXEMBOURG**

Genus	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391
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## CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

## A game of cat and mouse

A game of cat and mouse developed between the central banks and foreign exchange markets last week, keeping the dollar within a range of about DM 2.62 to DM 2.65. On Monday the dollar opened weak and fell to a low of DM 2.6140, but the central banks made no move to push the currency through DM 2.60, perhaps because there was no desire to provide easy profits for speculators running short positions.

Covering of positions led to a dollar recovery to the DM 2.63 to DM 2.64 level, and with the central banks only showing an occasional presence, the market became a little more adventurous taking the currency beyond DM 2.65. This was not to the liking of the central banks and immediately the German Bundesbank, followed by the U.S. Federal Reserve, sold dollars.

This was on Thursday, but when Europe was closed New York dealers took the dollar back up to DM 2.6500, apparently without any resistance from the Fed.

On Friday morning the rate was back down to around DM 2.6450 and in very quiet trading the Bundesbank did not intervene at the Frankfurt exchange and was not seen in the open market. But after Frankfurt closed New York pushed the dol-

## £ IN NEW YORK

	Oct. 25	Prev. close
1 month	91.4815-92.5515	91.4815-92.5515
3 months	91.4815-92.5515	91.4815-92.5515
6 months	91.4815-92.5515	91.4815-92.5515
12 months	91.4815-92.5515	91.4815-92.5515

Forward premiums and discounts apply to the U.S. dollar.

lar up to nearly DM 2.66, before there was a nervous correction back to DM 2.65. This is obviously the critical level and at the moment the mouse does not have enough confidence to challenge the cat, and chooses to play when it thinks the cat will not pounce.

It is all a matter of timing. The market assumes the central banks wish to see a level of less than DM 2.60 and under Y210 for the dollar, but cannot tell when this is likely to happen.

With the dollar locked in this narrow range the factors usually moving the market were virtually ignored. A relatively high federal funds rate helped to underpin confidence in the dollar, while a larger than expected fall of 36.5bn in weekly M1 money supply had no impact, despite the fact that M1 is nearer the Fed's target range. The recent sharp growth above

target has been regarded as a major factor preventing any further fall in U.S. interest rates. Another factor is the very heavy U.S. Treasury and corporate expected when Congress raises the Federal debt ceiling. The debate about the debt ceiling could go on until mid-November, which is when the Government will finally run out of money, but the need to fund will then be extremely urgent.

The question is whether the dollar can be encouraged to fall at a time when the U.S. Treasury is offering attractive yields to sell as much paper as possible.

The visit of Mr Yasuhiro Nakasone, the Japanese Prime Minister, to the U.S. led the Bank of Japan to do all it could to encourage the dollar to fall against the yen. Apart from foreign exchange intervention the central bank also drove up interest rates in Tokyo, causing more than a little confusion in some alarm in financial markets. Interest rates are likely to hold the key to long term future developments on the exchanges and other factors are largely ignored, including very good West German trade figures last week. U.S. trade figures are due this Thursday, but in the present climate even a record deficit will probably have little impact.

## FINANCIAL FUTURES

## POUND-£ (Foreign Exchange)

	1 month	3 month	6 month	12 month
1.4255	1.4185	1.4125	1.4075	1.3985
1.3985	1.4020	1.4020	1.4020	1.3980

## LIFE-STERLING £25,000 £ per £

	Close	High	Low	Prev
Dec	1.4180	1.4190	1.4180	1.4175
Mar	1.4075	—	—	1.4075
Jun	1.3985	—	—	1.4000

## LIFE-DEUTSCHE MARKS DM 125,000 £ per DM

	Close	High	Low	Prev
Dec	2.2800	2.2800	2.2795	2.2795
Mar	2.2831	—	—	2.2830
Jun	2.2893	—	—	2.2890

## CHICAGO

## U.S. TREASURY BONDS (CBT) %

	Close	High	Low	Prev
Dec	76.20	76.27	76.18	76.20
Mar	75.10	75.20	75.05	75.25
Jun	74.05	74.15	74.02	74.20

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## CENT DEPOSIT (NIM) \$1m points of

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## THREE-MONTH EURO-DOLLAR (NIM) \$1m points of

	Close	High	Low	Prev
Dec	91.75	91.80	91.70	91.74
Mar	90.75	90.80	90.70	90.74
Jun	89.75	89.80	89.70	89.74

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## U.S. TREASURY BONDS (TMM) \$1m

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## LIFE-EURO-DOLLAR OPTIONS

## Strike price

	Dec	Mar	Jun	Vol	Dec	Mar	Jun	Vol
90.50	1.25	1.05	0.85	—	0.00	0.07	0.25	—
91.00	0.77	0.58	0.37	—	0.01	0.17	0.45	—
91.50	0.25	0.05	0.01	—	0.00	0.07	0.70	—
92.00	0.01	0.01	0.01	—	0.00	0.07	1.04	—
92.50	0.00	0.00	0.00	—	0.00	0.07	1.04	—

## Previous day's open int. Call: 2,611 Puts: 2,948

## LIFE-E/5 OPTIONS

## Strike price

	Dec	Mar	Jun	Vol	Dec	Mar	Jun	Vol
1.20	22.47	22.47	22.47	—	0.00	0.23	0.52	—
1.25	17.47	17.47	17.47	—	0.01	0.83	1.80	—
1.30	12.47	12.47	12.47	—	0.07	1.43	3.32	—
1.35	7.47	7.47	7.47	—	0.45	2.22	4.88	—
1.40	2.47	2.47	2.47	110	1.76	4.32	6.92	—
1.45	1.31	1.31	1.31	115	4.51	7.77	6.83	—
1.50	0.35	0.35	0.35	80	8.25	11.20	13.25	—

## Previous day's open int. Call: 9,008 Puts: 15,933

## LONDON SE/E/5 OPTIONS

## Strike price

	Dec	Mar	Jun	Vol	Dec	Mar	Jun	Vol
1.20	22.50	22.50	22.50	—	0.15	0.40	0.85	—
1.25	17.50	17.50	17.50	—	0.15	0.70	1.80	—
1.30	12.50	12.50	12.50	500	0.30	1.40	2.80	—
1.35	7.50	7.50	7.50	—	0.55	2.70	5.80	—
1.40	2.50	2.50	2.50	—	1.80	4.80	6.80	—
1.45	1.40	1.40	1.40	—	4.70	7.90	9.30	—
1.50	0.30	0.30	0.30	—	8.50	11.20	12.70	—

## Previous day's open int. Call: 8,347 Puts: 9,573

## PHILADELPHIA SE/E/5 OPTIONS

## Strike price

	Dec	Mar	Jun	Vol	Dec	Mar	Jun	Vol
1.20	22.50	22.50	22.50	—	0.15	0.40	0.85	—
1.25	17.50	17.50	17.50	—	0.15	0.70	1.80	—
1.30	12.50	12.50	12.50	500	0.30	1.40	2.80	—
1.35	7.50	7.50	7.50	—	0.55	2.70	5.80	—
1.40	2.50	2.50	2.50	—	1.80	4.80	6.80	—
1.45	1.40	1.40	1.40	—	4.70	7.90	9.30	—
1.50	0.30	0.30	0.30	—	8.50	11.20	12.70	—

## Previous day's open int. Call: 8,347 Puts: 9,573

## LONDON

## 20-YEAR 12% NOTIONAL GILT £50,000

	Close	High	Low	Prev
Dec	125.80	126.20	125.70	125.85
Mar	126.80	—	—	127.46
Jun	127.80	—	—	128.46

## Previous day's open int. 1,892 (1,896)

## 10% NOTIONAL SHORT GILT £100,000

	Close	High	Low	Prev
Dec	98.04	98.10	98.00	98.10
Mar	97.04	97.10	97.00	97.10
Jun	96.04	96.10	96.00	96.10

## Previous day's open int. 1,732 (1,750)

## THREE-MONTH STERLING £500,000

	Close	High	Low	Prev
Dec	91.78	91.78	91.78	91.74
Mar	90.78	90.78	90.78	90.74
Jun	89.78	89.78	89.78	89.74

## Previous day's open int. 21,143 (21,775)

## U.S. TREASURY BONDS 5% \$100,000

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## Previous day's open int. 2,956 (3,011)

## U.S. TREASURY BONDS 5% \$100,000

	Close	High	Low	Prev
Dec	92.85	92.90	92.80	92.84
Mar	91.85	91.90	91.75	91.84
Jun	90.85	90.90	90.75	90.84

## Previous day's open int. 2,956 (3,011)&lt;/